

PS8000.01E UNICOR CORPORATE POLICY & PROC (CH 8500 TO SEC 8509)

Section 8500
FEDERAL PRISON INDUSTRIES ACCOUNTING

Implementing Instructions

All real accounts shall be converted as of October 1, 1983. Most real accounts have not been changed, therefore, there will be little conversion required. It is important that clarification to nominal and sub-accounts be accomplished in accordance with the attached charts as there are several additions and changes. The attached conversion sheets are forwarded to insure a standard and consistent implementation of the new Chart of Accounts and Journal Entries and provide a ready reference to staff of changes that will serve as an aid until the new system is completely understood. The conversion tables include:

- new real account numbers and titles to old real account numbers and titles. None of the old accounts have changed but a few have been added (Attachment 1).
- new nominal account numbers and titles (Attachment 2). Also included is a conversion table of old account numbers to new account numbers since several of the old accounts have been changed (Attachment 3). This chart shall be used in completing "Same Period Last Year" column of the FPI Form 3.
- new sub-account numbers and titles and old sub-account numbers and titles (Attachment 4). Also included is a conversion table of old account numbers to new account numbers since several of the old accounts have been changed (Attachment 5). This chart shall be used in completing "Same Period Last Year" column on the FPI Form 4.
- new Journal entry numbers to old journal entry numbers including the source of the entry and its purpose (Attachment 6). Also included is a conversion table of old journal entry numbers to new journal entry numbers (Attachment 7).

New/revised forms resulting from this change are being printed and are scheduled for distribution in early October. The following forms are affected by this manual revision:

FPI Form 2 - Comparative Balance Sheet - now only contains the balance sheet and will be used effective October 1983 reporting.

FPI Form 3 - Condensed Statement of Operations - new form used to report results of operations and will be used effective October 1983. Detailed instructions on the use of the "Same Period Last Year" columns will be issued in September 1983.

FPI Form 4 - Summary of Expense - (revised) used to report expenses for various nominal accounts and will be used effective October 1983.

8500, CN-16, September 8, 1983

FPI Form 7 - Shipping Order and Cost of Sales Register - (revised) used to record shipments of goods and the applicable cost of sales. Will be used effective October 1983.

FPI Form 10 - Monthly Completed Job Order Report - new form used to record the summary of all costs for jobs completed during a month. Will be used effective October 1983.

FPI Form 81 - Vocational Training revises form for request, budget and reporting of vocational training programs and will be used effective October 1983.

FPI Form 97 - Washington Control Register - a new register used to record all transactions between UNICOR locations. Will be used effective October 1983.

FPI Form 1034 - Control Voucher for Purchases and Services Other than Personal - new form for use in voucher preparation will be used upon the soon depletion of current supply of SF-1034's or October 1984.

CONVERSION SHEET
New Real Account
To
Old Read Account

Debit Accounts

<u>New Account Number</u>	<u>New Account Title</u>	<u>Old Account Number</u>	<u>Old Account Title</u>
03	Cash	None	
.31	Operating	03.31	Cash-Operating
.39	Special Deposits	03.39	Special Deposits
10	Accounts Receivable	10	Accounts Receivable
.1	Government	.1	Accounts Receivable
.2	Travel Advances	.2	Travel Allowances
.3	Public	None	
15	Finished Goods	15	Finished Goods
.1	Finished Goods	.1	Finished Goods
	Manufactured		Manufactured
.2	Outside Purchases		Outside Purchases
18	Work in Process	18	Work in Process
.1	Material in Process	.1	Material in Process
.2	Labor in Process	.2	Labor in Process
.3	O/H in Process	.3	O/H in Process
20	Raw Materials & Supplies	20	Raw Materials & Supplies
.1	Raw Materials & Supplies	.1	Raw Materials - Supplies
.2	Defective Material	.2	Defective Material
.3	Scrap	.3	Scrap
.4	Shop Stock	.4	Shop Stock
		.5	Bailment Material
21	Allowance for Obsolete Inventory	None	
.1	Raw Materials & Supplies	None	
.2	Finished Goods	None	
25	Machinery & Equipment	25	Machinery & Equipment
.1	Production	.1	M & E Production
.2	Other	.2	M & E V.T.
		.3	M & E Divisional
		.4	M & E Administrative
26	Allowance for Obsolete Machinery & Equipment	None	
30	Buildings & Improvements	30	Buildings & Improvements
		.1	B & I Industrial
.1	Not Used	.2	B & I Vocational
.2	Not Used		
35	Construction	35	Construction

<u>New Account Number</u>	<u>New Account Title</u>	<u>Old Account Number</u>	<u>Old Account Title</u>
40	Deferred and Prepaid Expense	40	Deferred and Prepaid Expense
.1	Start-up Costs		
.2	Prototype Products		
.3	Other		
45	Not Used	45	Other Assets
97	Washington Control	97	Washington Control
.1	Prior Years Balance	None	
.2	Cash Transfers	None	
.3	Tangible Assets Transfers	None	
.4	Transfer Billings	None	

CREDIT ACCOUNTS

70	Accounts Payable	70	Accounts Payable
.1	Vouchers in Transit	.1	Vouchers
.3	Unvouchered Receipts	.3	Vouchers in Transit
.4	Transportation Expense Payable	.4	Reserve for Transportation
.5	Accounts Payable Deferred	.5	Accounts Payable
Deferred			
.6	Contingent Annual Leave	.6	Contingent Annual Leave
.7	Accrued Expenses	.7	Accrued Accounts Payable
.8	Accident compensation Payable	.8	Reserved for Accident
Compen-			
.11	Special Deposits		sation
.12	Not Used	.11	Special Deposits
		.12	Liability for Bailment Material
80	Accumulated Depreciation M&E	80	Reserve for Depreciation M&E
.1	Production	.1	M & E Production
.2	Other	.2	M & E V.T.
.3	Not Used	.3	M & E Divisional
.4	Not Used	.4	M & E Administrative
81	Accumulated Depreciation Buildings and Improvements	81	Reserve for Depreciation Buildings and Improvements
.1	Production	.1	B & I Industrial
.2	Other	.2	B & I V.T.
85	Not Used	85	Reserve for Contingent Liability
90	Initial Capital	90	Initial Capital
91	Donated Property	None	

Attachment 1-3
8000.1
8500, CN-16
September 8, 1983

<u>New Account Number</u>	<u>New Account Title</u>	<u>Old Account Number</u>	<u>Old Account Title</u>
95	Results of Operations	95	Earned Surplus
.1	Cumulative Results of Operations	None	
.2	Cumulative Results of Operations (Current Period)	None	
.3	Dividends Paid U.S. Treasury	None	
None Transferred of		96	Property Without Exchange Funds
97	Washington Control	97	Washington Control
.1	Prior Year's Balance	None	
.2	Cash Transfers	None	
.3	Tangible Assets Transfers	None	
.4	Transfer Billings	None	

8500, CN-16, September 8, 1983

CONVERSION SHEET
New Nominal Accounts
To
Old Nominal Accounts
Debit Accounts

<u>New Account Number</u>	<u>New Account Title</u>	<u>Old Account Number</u>	<u>Old Account Title</u>
54	Sales Return for Rework		
.1	Government Agencies		
.2	UNICOR	none	
55	Returns and Allowance		
.1	Government Agencies	55	Sales Returns and Allowances
.2	UNICOR		
		.1	Cost Sales
56	Cost of Sales	.2	Transfer Sales
.1	Government Agencies		
.2	UNICOR	56	Cost of Sales
.3	Abnormal Costs	.1	Cash Sales
.4	Inventory Valuation	.2	Transfer Sales
	Write-Off		
.5	Inventory		
Overages/Shortages			
*57	Production Expense		
*60	Maintenance Expense	57	Manufacturing Expense
*61	QA Expense	57	" "
*62	Warehouse Expense	57	" "
*63	Business Office Expense	57	" "
*64	Selling Expense	57	" "
*65	Other Expense	60	Sales Expense
*66	Pre-Industrial Training	63	Other Expense
71	Support Division Expense	66	Pre-Industrial Training
.I	Information Systems Division	62	General Admin. Expense
			" " "
72	Production Division Expense		
.D	Data/Graphics Division	64	Div. Operating Expense
.E	Electronics Division		
.M	Metal, Wood and Plastics Div.		
.T	Textile & Leather Products		
73	Corporate Administrative Expense Control	62	General Admin. Expense Control
75	Vocational Training Exp. Control	61	Vocational Training
76	Voc. Training Experimental Control	76	Vocational Training Experimental
77	Inmate Performance Pay		
78	Extraordinary Losses	67	Inmate Meritorious Compensation
79	Discontinue Operations		
		63	Other Expense
		63	Other Expense
* - New number different from old number			

CREDIT ACCOUNTS

<u>New Account Number</u>	<u>Old Account Title</u>	<u>Old Account Number</u>	<u>Old Account Title</u>
50	Sales	50	Sales
.1	Government Agencies	.1	Cash
.2	UNICOR	.2	Transfer Sales
53	Other Income	53	Other Income
.1	Miscellaneous Sales	.1	Miscellaneous Sales
.2	Cost of Miscellaneous Sales	.2	Cost of Miscellaneous Sales
.3	Other Income	.3	Other Income
.4	Recapture of Donated Property Expense	-	None
58	Overhead Expense Applies	-	None
74	Profit or Loss	65	Profit and Loss

CONVERSION SHEET

Old Nominal Account
To
New Nominal Accounts

DEBIT ACCOUNTS

CREDIT ACCOUNTS

<u>Old Account Number</u>	<u>New Account Number</u>	<u>Old Account Number</u>	<u>New Account Number</u>
55	55	50	50
.1	.1	.1	.1
.2	.2	.1.1	xx.30
		.2	.2
56		53	53
.1	.1	.1	.1
.2	.2	.2	.2
		.3	.3
57	57, 60, 61, 62, 63	.4	xx.14.3
		.5	None
58		54	None
.1	56.3	65	74
.2	56.4		
.3	None		
60	64		
61	75		
62	73		
63	65		
64	66		
66	77		
67	xx.03		
68	xx.08		
69	76		
76			

xx = Overhead Account

8500, CN-16, September 8, 1983

CONVERSION SHEET
NEW SUB-ACCOUNTS
To
OLD SUB-ACCOUNTS

<u>New Account Number</u>	<u>New Accounting Title</u>	<u>Old Account Number</u>	<u>Old Accounting Title</u>
* .01	Salaries, Civilian	.01	Salaries, Civilian
.1	Permanent Positions	.1	Permanent Positions
.2	Other than Permanent	.3	Other than Permanent
.2a	Temporary Employment	.3a	Temporary Employment
.2b	Part time Employment	.3b	Part time Employment
.2c	Intermittent Employment	.3c	Intermittent Employment
.3	Other Personnel Compensation	.5	Other Personnel
Compensation			
.4	Contingent Annual Leave	.8	Special Personnel
Services			
.02	Personnel Benefits	.38	Personnel Benefits
.03	Incentive Awards	*	
.1	Civilian	-	Not Used
.2	Inmate	-	Not Used
* .04	Contract Services	.29	Contract Service
.1	Specialists	.1	Individual
.2	Other	.2	Other
.05	Labor Indirect Inmate	.02	Labor Indirect Inmate
.1	Regular	-	Not Used
.2	Overtime	-	Not Used
.3	Other	-	Not Used
.06	Reimbursable Salaries	-	Not Used
.07	Employee Development	.30	Employee Development
.1	Civilian	.1	Civilian
.2	Inmate	.2	Inmate
.3	Inmate Scholarships	.3	Inmate Scholarships
.08	Accident Compensation	.20	Accident Compensation
.1	Civilian	-	Not Used
.2	Inmate	-	Not Used
.09	Special Clothing	.22	Special Clothing
.10	Special Meals	.28	Special Meals
.11	Experimental Expense	.24	Experimental
.12	Grading & Testing	.36	Grading and Testing
.13	Inventory Overage Shortage	-	Not Used
* .14	Damaged/Obsolete Inventory	.1	Loss and Damaged Goods
.15	Indirect Materials	.12	Factory Supplies

* Nominal Account 8 had been used for Incentive Awards.

<u>New Account Number</u>	<u>New Accounting Title</u>	<u>Old Account Number</u>	<u>Old Accounting Title</u>
16	Factory Supplies	.12	Factory Supplies
17	Machinery Repairs	.15	Machinery Repairs
18	Building Repairs	.14	Building Repairs
19	Minor Equipment & Tools	.19	Minor Equipment & Repairs
20	Depreciation M&E	.10	Depreciation M&E
21	Depreciation B&I	.11	Depreciation B&I
22	Amortization	.08	Amortization of Decreased
23	Rents & Royalties	.07	Rent and Royalties
*24	Vehicle Operations		Vehicle Operations
25	Utilities	.03 & .05	Light, Heat, Power & Fuel
*26	Communications Expense	.09	Telephone & Telegraph
27	Bad Debts Expenses		Not Used
28	Travel Expense	.06	Travel Expense
.1	Regular Travel	.1	Regular Travel
.2	Perm. Change Station-Benefits	.2	Change of Duty Station (OB
12)			
.3	Perm. Change Station-travel	.3	Change of Duty Station (OB
12)			
.4	Transportation - Storage		Not Used
.5	Training Travel	.4	Training Travel
29	Freight, Express, Parcel Post	.16	Freight, Express, Parcel Post
30	Transportation Cost Billed to Other	.16.6**	Transportation Cost Billed to Other
31	Packaging & Shipping	.26	Packaging & Shipping
32	Samples	.25	Samples

* Contains further breakdown of account than shown on FPI Form 4

** Nominal Account 5501.1 has also been used.

8500, CN-16, September 8, 1983

<u>New Account Number</u>	<u>New Accounting Title</u>	<u>Old Account Number</u>	<u>Old Accounting Title</u>
33	Office Expenses	.23	Office Supplies, Printing and Stationery
.1	Supplies & Stationery	.1	Supplies & Stationery
.2	Postage	-	Not Used
.3	Printing & Duplicating	.2	Printing
.4	Equipment Rental	-	Not Used
.5	Computer Lines Telephone Charge	-	Not Used
.6	Computer/Office Machine Repair		Not Used
34	Publications	.27	Publications
		-	
35	Interest Paid	-	Not Used
*36	Discounts Lost	-	Not Used
37	Other Expense	.04	Other
38	Special (Cleaning Account)	.37	Personnel Benefits
39	M&E Vocational Training	-	M&E Vocational Training
40	B&I Vocational Training	-	B&I Vocational Training
41	Marketing & Selling		Not Used

* Contains further breakdown of account than shown on FPI Form 4

8500, CN-16, September 8, 1983

CONVERSION SHEET
 OLD SUB-ACCOUNTS
 To
 NEW SUB-ACCOUNTS

<u>Old Account Number</u>	<u>New Account Number</u>	<u>Old Account Number</u>	<u>New Account Number</u>
.01	.01	.16	
.1	.1	.1	.29
.3	.3	.3	.28.4
.a	.a	.4	.30
.b	.b	.17	.24
.c	.c	.18	-
.5	.3	.19	.19
.8	.4	.20	.08
.02	.05	.21	-
.03	.25	.22	.09
.04	.37	.23	.33
.05	.25	.1	.1
.06	.28	.2	.2
.1	.1	.24	.11
.2	.2	.25	.32
.3	.3	.26	.31
.4	.5	.27	.34
.07	.23	.28	.10
.08	.22	.29	.04
.09	.26	.1	.1
.10	.20	.2	.2
.11	.21	.30	.07
.12	.15	.1	.1
.13	.14	.2	.2
.14	.18	.3	.3
.15	.17	.35	.31
		.36	.12
		.37	.38
		.38	.02
		.40	Not Used
		.50	Not Used

8500, CN-16, September 8, 1983

CONVERSION SHEET

New Journal Entry

To

Old Journal Entry

<u>New JE</u>	<u>Corresponding Old JE</u>	<u>Purpose</u>
1	Various	Transaction which affect Acct. 97.
5	5	Record Cash Collections.
* 6	none	Recapture donated property expense.
7	7	Record transportation cost for month.
7A	none	Write off transportation accruals not billed.
8	8	Record tangible property received.
* 8A	8	Return of tangible property received.
* 8B	8	Record donations at fair market value.
9	9	Record vouchers approved for payment.
* 9A	-	Used upon discontinuance of a factory, product line or method of operations.
10	10	Accruals.
11	11	Reverse of accruals from prior month.
12	12	Items issued for the month.
12a	-	Record adjustments in UNICOR property transfer.
13	13	Record payments made.
14	14	Record check cancellations.
15	15	Write off of deferred & prepaid expense.
16	16	Set up depreciation charges.
17	17	Charge overhead expense.
18	18	Charge completed WIP to F/G & cost of sales.
19	19	Charge completed w/drawn from F/G to cost of sales.
20	20	Record redistribution of expense within an industry.
21	21	Revaluation, disposal as scrap, transfer,
lost		without fault of responsible person.
*21a	21	Loss of fixed asset due to catastrophe.
*21b	21	Loss of inventory due to catastrophe.
*21c	21	Record 95%, write down.
*21d	21	Write down of prototype equipment.
22	22	Record sales.
*22a	22	Sale of scrap, removal from scrap inventory.
*22b	22	Sales returns for rework.
*23	-	Write off uncollectible debts.

8500, CN-16, September 8, 1983

<u>New JE</u>	<u>Corresponding Old JE</u>	<u>Purpose</u>
24	24	Close construction account.
* 25	26	Record increase/decrease in annual leave.
* 26	27, 28	Record Inventory Shortages and write off damaged or obsolete inventory not processed through JE 26B or 26C.
* 26a	29	Record Shortages/overages in raw materials- Supplies
* 26b	none	Record directed allowances for damaged/ obsolete property.
* 26c	none	Record disposal of items for which an allowance has been established in JE 26b.
* 27	21	Record donations of previously donated property to non UNICOR activities.
31	31, 32	Close nominal accounts.
* 32	31	Close Washington Control accounts.
* 40	31	Close division and corporate expense.
* 41	32	Close subsidiary Washington Control accounts.
* 42	32	Close corporate profit/loss for year.
* 43	-	Close Account 95.2 to 95. at year end.
* 44	14	Record distribution to U.S. Treasury.

* = NEW JE # DIFFERENT FROM OLD

SECTION 8500

OVERVIEW

INDEX

<u>SUBJECT</u>	<u>PAGE</u>
100. BACKGROUND	1
101. UNICOR MISSIONS	1
102. LEGISLATION	1
1. Duties	1
2. Authorities	2
3. Controls	3
4. Sales	3
103. BOARD OF DIRECTORS	3
104. ORGANIZATION STRUCTURE	4
1. Industrial Operations Group	4
2. Corporate Management Group	5
3. Financial Management Group	5
4. Corporate Policy Review Committee	6
105. MANAGEMENT SYSTEM	7
106. DELEGATION OF AUTHORITY TO CORPORATE CONTROLLER	7
1. General Responsibility	7
2. Staffing Structure of the Resources Division	10
3. Specific Transactions Requiring Controller's Approval	11
107. FINANCING UNICOR OPERATIONS	11
108. BUDGET PROCESS	12
109. PAYROLL FUNCTION	12
110. REPORTS	13
1. Basic Requirements	13
2. Type and Content of Reports	13
3. Other	13
111. UNICOR'S ACCOUNTING SYSTEM	14

<u>SUBJECT</u>	<u>PAGE</u>
112. ACCOUNTING FUNCTIONS	15
1. Accounting	15
2. Internal Control	15
113. OBJECTIVES OF THE UNICOR ACCOUNTING SYSTEM	15
114. IMPROVEMENTS AND UPDATING	16
115. BASIC ACCOUNTING APPLICATIONS	16
1. Business Office Locations	16
2. Accounting Mechanism	17
3. Processing Cycle	17
116. OBJECT CLASSIFICATIONS	17
117. GENERAL LEDGER ACCOUNTS	18
118. RELATIONSHIP TO THE DEPARTMENT OF JUSTICE PAYROLL SYSTEM	18
119. PERSONNEL LEADERSHIP AND TRAINING	18
120. RELATIONSHIP TO OTHER SYSTEMS	19

<u>ILLUSTRATION</u>	<u>TITLE</u>	
<u>PAGE</u>		
1	Matrix Concept of Management (Organization Chart)	8
2	Multiple Industries Locations (Organization Chart)	9

8500, CN-16, September 8, 1983

CONVERSION SHEET
Old Journal Entry To
New Journal Entry

<u>Old JE</u>	<u>New JE</u>	<u>Old JE</u>	<u>New JE</u>
1	1	18	18
* 2	1	19	19
* 3	1	20	20
* 3a 21a, 21b, 21c, 21d	none	* 21	
* 4	1	22	22
* 4a	none	* 23	none
5	5	24	24
* 6	1	* 25	1
7	7	* 26	25
8	8	* 27	26
9	9	* 28	26
* 9a	none	* 29	26A
10	10	* 30	None
11	11	31	31, 32, 40
12	12	32	41, 42
13	13		
14	14, 44		
15	15		
16	16		
17	17		

FOREWORD

1. PURPOSE. This manual has been developed to provide accounting policies and procedures to be followed in governing accounting operations and internal financial controls within UNICOR. These policies and procedures are designed to be consistent with the principles and standards established by both the General Accounting Office and the Department of Justice. Manual changes will be issued when required to assure that documented policies and procedures keep pace with current developments in accounting theory and practice and the needs of UNICOR operations.

2. SCOPE. All corporate, division and field locations of UNICOR are required to operate in accordance with policies and procedures prescribed in this manual.

Norman A. Carlson
Commissioner
Federal Prison Industries, Inc.

UNICOR
ACCOUNTING MANUAL

TABLE OF CONTENTS

Section 8500	OVERVIEW
8501	CHART OF ACCOUNTS AND ACCOUNTING
CLASSIFICATION	CODES
8502	JOURNAL ENTRIES
8503	INTERNAL CONTROL
8504	INVOICING
8505	COLLECTIONS
8506	COST ACCOUNTING MANUAL (Separate Manual)
8507	DISBURSEMENTS
8508	FIXED ASSETS
8509	INVENTORY CONTROL
8510	(RESERVED)
8511	PAYROLL
8512	(RESERVED)
8513	TRAVEL AND TRANSPORTATION
8514	VOUCHERING
8515	REPORTS, FORMS AND RECORDS
8516	(RESERVED)
8517	(RESERVED)
8518	ACCOUNTING DATA FOR THE PLANNING FUNCTION
8519	AUDIT ACTIVITY
8520	TRAINING
8530	PROCUREMENT

OVERVIEW

100. BACKGROUND Federal Prison Industries, Inc., is a wholly owned Government corporation established in the District of Columbia in 1934 under Acts of Congress and an Executive Order, both of which are now incorporated in Title 18 of the United States Code, Section 4121 to 4128. Throughout this manual the trade name UNICOR will be used to identify the corporation, Federal Prison Industries, Inc.

101. UNICOR MISSIONS The primary missions of UNICOR are to:

1. Employ as many inmates as possible in contemporary productive labor. This mission is designed to reduce idleness which deprives offenders of self respect and a sense of purpose and provides inmates with money for personal expenses and family assistance. Various forms of employment are to be provided to give inmates maximum opportunity to acquire a knowledge and skill in trades and occupations which will provide a means of livelihood for them upon release.

2. Provide industrial training to inmates at the entry level or for enhancement of their capabilities in skilled and semi-skilled occupations. Industrial training may be provided qualified inmates whether assigned to UNICOR or any other institution program

3. Remain financially self-supporting in meeting the financial needs for facilities/equipment modernization and improvements, manufacturing operations, vocational training expenses, monthly cash awards inmate services provided to the institution and accident compensation of inmates injured in job related activities.

102. LEGISLATION Title 18 of the United States Code provides legislation for UNICOR activities in the areas of the duties, authorities and controls.

1. Duties. Specific UNICOR duties legislated by Congress includes:

- a. UNICOR Board of Directors shall provide employment for all physically fit inmates in the United States penal and correctional institutions and may provide for the vocational training of qualified inmates without regard to their industrial or other assignments.

b. Such forms of employment shall be provided as will give the inmates of all Federal penal and correctional institutions a maximum opportunity to acquire a knowledge and skill in trades and occupations which will provide them with a means of earning a livelihood upon release.

c. All moneys under the control of UNICOR or received from the sale of the products or by-products of such Industries, or for the services of federal prisoners, shall be deposited or covered into the Treasury of the United States to the credit of the Prison Industries Fund and withdrawn there-from only pursuant to accountable warrants or certificates of settlement issued by the General Accounting Office.

d. All valid claims and obligations payable out of said fund shall be assumed by the corporation.

e. The corporation, in accordance with the laws generally applicable to the expenditures of the several departments and establishments of the government, is authorized to employ the fund, and any earnings that may accrue to the corporation, as operating capital in performing the duties imposed by this chapter including the repair, alteration, erection and maintenance of industrial buildings and equipment; paying, under rules and regulations promulgated by the Attorney General, compensation to inmates employed in any industry, or performing outstanding services in institutional operations; and compensation to inmates or their dependents for injuries suffered in any industry or in any work activity in connection with the maintenance or operation of the institution where confined. In no event shall compensation be paid in a greater amount than that provided in the Federal Employees' Compensation Act.

f. Accounts of all receipts and disbursements of the corporation shall be rendered to the General Accounting Office for settlement and adjustment, as required by the Comptroller General.

g. Such accounting shall include all fiscal transactions of the corporation, whether involving appropriated moneys, capital, or receipts from other sources.

h. The Board of Directors of UNICOR shall make annual reports to Congress on the conduct of the business of the corporation and on the condition of its funds.

2. Authorities. Specific UNICOR authorities legislated by Congress includes:

a. The Attorney General may make available to the heads of the several departments the services of United States prisoners under terms,

conditions, and rates mutually agreed upon, for constructing or repairing roads, clearing, maintaining and reforesting public ways or works financed wholly or in major part by funds appropriated by Congress.

b. The Attorney General may establish, equip, and maintain camps upon sites selected by him elsewhere than upon Indian reservations and designate such camps as places for confinement of persons convicted of an offense against the laws of the United States.

c. UNICOR industries may be either within the precincts of any penal or correctional institution or any convenient locality where an existing property may be obtained by lease, purchase or otherwise.

3. Controls. Specific operating controls over UNICOR operations that have been legislated by Congress includes:

a. Limitation on commodities produced to those consumed within Federal penal institutions or for sale to the departments or agencies of the United States, but not for sale to the public in competition with private enterprise.

b. UNICOR industries should be so diversified that no single private industry shall be forced to bear an undue burden of competition from the products of the prison workshops and should reduce to a minimum competition with private industry or free labor.

c. Any industry established by UNICOR shall be so operated as not to curtail the production of any existing arsenal, navy yard, or other Government workshop.

4. Sales. Title 18 of the United States Code, Sec. 4124, also provides legislation related to the sale of UNICOR products as follows:

a. The several Federal departments and agencies and all other Government institutions of the United States shall purchase at not to exceed current market prices, such products of the industries authorized as meet their requirements and may be available.

b. Disputes as to the prices, quality, character, or suitability of such products shall be arbitrated by a board consisting of the Comptroller General of the United States, the Administrator of General Services, and the Director of the Bureau of the Budget, or their representatives. Their decision shall be final and binding upon all parties.

103. BOARD OF DIRECTORS

1. The Corporation is administered by a Board of six directors representing industry, labor, agriculture, retailers and consumers, the Secretary of Defense and the Attorney General. The members of the Board are appointed by the President of the United States and serve without compensation (18 U.S.C. 41231). Regular meetings of the board are held semi-annually.

2. Officers of the Corporation include a President and Vice President selected from Board of Director membership. The Secretary of the Corporation is appointed by the President of the Board of Directors subject to approval by the Board of Directors. The Director of the Federal Bureau of Prisons is the ex-officio Commissioner of Industries. He is the acting executive officer of the Corporation and has all of the rights and powers vested in him by the Board of Directors. He is specifically empowered to sign all contracts of the Corporation. The Commissioner causes to be kept full and accurate accounts of receipts and disbursements in books belonging to the Corporation as well as all other transactions of the Corporation so that a proper and correct financial condition of the Corporation can be ascertained at any time.

An Associate Commissioner is appointed by the Board of Directors who exercises the powers and performs the duties of the Commissioner of Industries to the extent delegated by the Commissioner or vested in him by the Board of Directors. Employees of the Corporation and their rate of pay are subject to the Attorney General's criteria and the rules and regulations of the Office of Personnel Management.

104. ORGANIZATION STRUCTURE. The Associate Commissioner with the aid of an executive assistant directs UNICOR operations through three groups, one staff function and a Product Requirements Committee.

1. Industrial Operations Group. Five divisions comprise this group. Each of these divisions is responsible for a specific product line or number of related product lines. The functions of each product division include those directly related to the production and sale of goods and services; including product development, procurement, inventory management, production scheduling, customer search, sales and marketing, etc. The five product divisions and associated products are:

a. Data/Graphics Division. Data encoding services (keypunch, key-to-disk, key-to-tape). General and special custom printing, wood and metal signs, decals.

b. Electronics Division. Wiring devices of all types, electrical cable assemblies, electronic wiring harnesses, printed circuits, electronic systems, support systems.

c. Metals/Wood/Plastic Division. Metal and wood office/dormitory furniture, steel shelving, military beds, bore brushes, molded fiberglass furniture, furniture refinishing, military helmets, wide variety of paint, varnish and maintenance brushes.

d. Textile and Leather Products Division. Shoes, brooms, mattresses, gloves, drapery, cotton and wool textiles, canvas goods, synthetic textile products, clothing, weather parachutes.

The organizational structure of the divisions normally has the following staff functions: division management, industrial or production management, quality control, administration and marketing. Product Division Managers report directly to the Secretary/Deputy Associate Commissioner. While division administrative officers are not directly involved in accounting matters they receive, review and analyze copies of monthly accounting reports related to their division factories and evaluate pricing recommendations. As a result they serve as financial advisors to the product division managers.

2. Corporate Management Group. This group advises on the plans and policies of the Corporation and oversees its general management. Among its primary responsibilities are formulation of program plans based on both corporate and institution needs and assessment and evaluation of industrial programs. It is also responsible for those activities generated by common needs of the product divisions such as publications, inmate programs, industrial design, and quality assurance. This group is directed by the Secretary/Deputy Associate Commissioner, assisted by an administrative officer and is comprised of the Quality Assurance, Industrial Design and Inmate Programs Units. In addition, each Superintendent of industries is a member of the Corporate Management Group in matters concerning the conduct of UNICOR business and corporate policy.

The functions of these support units are as follows:

a. The quality assurance unit is responsible for the development of corporate policies and procedure in quality assurance areas. The Quality Assurance Manager is also responsible for field location reviews to assure implementation of corporate-wide quality assurance programs.

b. The industrial design unit is responsible for development of sales promotion literature and related graphics arts.

c. The inmate programs unit is responsible for inmate industrial training programs, inmate industrial relations and inmate safety programs.

d. The groups administrative assistant provides a focal point for liaison between the Corporation and the Committee for the Employment of the Blind and Other Severely Handicapped (BOSH), and for the administration of corporate-wide civilian position and personnel matters.

3. Financial Management Group. This group maintains the corporate financial and management information system and records, establishes corporate policies and procedures and reviews their implementation, is responsible for facilities management and assumes responsibility for the effective operation of field location business offices. The group is directed by a Deputy Associate Commissioner and is comprised of the Information Systems,

and Resources Division; and the Internal Audit, Industrial Project, and Plans and Policies Units.

a. The Information Systems Division is responsible for all the technical effort required to automate UNICOR financial and data systems.

b. The Resources Division is responsible for financial and accounting matters of the corporation including the development and dissemination of policy statements. The Controller heads the division. Central Office needs for legal, personnel, procurement, fiscal, mail room, maintenance, safety service is provided by the Bureau of Prisons. UNICOR pays for service by assuming the cost of salaries for support positions.

c. The Internal Audit Unit is responsible for periodic on-site review of financial activities at UNICOR field locations and Product Division offices. Tri-annual audits by the General Accounting Office and periodic audits by the Department of Justice Audit Staff, financed by UNICOR, round out the formal audit activity for the corporation. The Bureau of Prison's Office of Inspection reviews all matters concerning the professional integrity of UNICOR personnel.

d. The Industrial Projects Unit coordinates UNICOR involvement in the establishment and furnishing of new BOP institutions, UNICOR building and improvement programs, facility management and safety.

e. The Plans and Policy Unit coordinates long range planning and budgeting, develops corporate policies and procedures related to program matters, coordinates UNICOR staff training, conducts operations and management analyses and participates in special projects as assigned.

4. Corporate Policy Review Committee (PRC). This committee assists the corporate Management Staff by originating, reviewing and recommending corporate policy. This exploration concept is carried out by a staff member from each of the UNICOR Divisions as appointed by the Division Manager. Specific functions of the Committee to: a. Provide a corporate-level forum for the discussion, review, and development of corporate policy issues. It's recommendations are submitted to the Corporate Management Staff for review at regular, bi-monthly Division Managers Meetings.

b. Perform ad hoc studies to research and recommend solutions to specific PRC agenda items.

c. Develop papers pertaining to issues on its agenda for Executive Staff and Division Managers Meetings, and other forums. These papers are circulated among the Corporate Management Staff for review and approval prior to release.

d. Search for and evaluate new enterprises for UNICOR, and evaluates and recommends future directions for existing industries.

105. MANAGEMENT SYSTEM In 1977 UNICOR implemented a management structure based upon the contemporary concepts of matrix management. To illustrate the matrix concept, excerpts from the June 1978 issue of the Harvard Business Review are presented below:

"The identifying feature of a matrix organization is that some managers report to two bosses rather than to the traditional single boss; there is a dual rather than a single chain of command. This modern design attempts to take advantage of both the new and the old organizational systems by superimposing a project structure onto a functional structure. Essentially, each unit or individual staff member of the matrix structure has a functional boss and a project boss.

In most matrix organizations, there are dual command responsibilities assigned to functional department (marketing, production engineering, and so forth) and to product or market departments. The former are oriented to specialized in-house resources while the latter focus on outputs. Every matrix contains three unique and critical roles; the top manager who heads up and balances the dual chains of command, the matrix bosses (functional, product, or area) who share subordinates, and the managers who report to two different matrix bosses."

UNICOR's matrix system involves interaction between the two major components of the Federal Prison System (BOP and UNICOR) as well as interaction within UNICOR. For example, the Superintendents of Industries, the ranking UNICOR official in the field, must answer to the institution's Warden, whose supervisory role within the institution extends to all BOP and UNICOR employees at that location. Among the Superintendent's institutional responsibilities are serving as Acting Associate Warden and institution duty officer when so designated. On the other hand, as a member of the UNICOR Corporate Management Group, the Superintendent reports to the Deputy Associate Commissioner (Operations), UNICOR. In this example the Warden serves as the Superintendent's functional superior while the Deputy Associate Commissioner serves as the project supervisor.

The schedule and organizational chart for Federal Prison Industries, Incorporation presented herein (illustrations 1 and 2) illustrate the basic lines of authority and communication for certain key positions. They are broken down into institutional and divisional areas of responsibility. (It should be noted that this particular chart is for FPI only, and that the Commissioner is also the Director of Bureau of Prisons.)

106. DELEGATION OF AUTHORITY TO CORPORATE CONTROLLER

1. General Responsibility. The Corporate Controller is responsible for the reliability of the Central Office and field location accounting

Illustration 1
Matrix Concept of Management
Organization Chart

FEDERAL PRISON INDUSTRIES, INC.

Illustration 2
Multiple Industries Locations
Organization Chart

<u>Position</u>	<u>Functional Boss</u>	<u>Project Boss(es)</u>
Superintendent of Industries (Corporate Management Group)	Warden (BOP)	Secretary/Deputy Associate Commissioner, UNICOR (Corporate Management) Division Manager (Product Division)
*Factory Manager (Product Division)	Superintendent of Industries (Corporate Management Group)	Division Manager (Product Division)
Business Manager (Resources Division)	Superintendent of Industries (Corporate Management Group)	Controller, UNICOR (Resources Division)

*At those institutions with single industries, the general foreman replaces the factory manager.

systems and the accounting of financial data as accumulated, summarized and reported for internal and external purposes. The Controller is also responsible for the implementation of the necessary internal controls for the safeguarding of corporate assets and for insuring the validity and integrity of the financial data generated. Generally, these responsibilities are discharged through the issuance of accounting policies, the establishment of systems and procedures, the review of submitted reports, coordinating training for Resources Division staff, and overseeing the assignment of positions and the selection of personnel for these positions. The commensurate authority is delegated by the Associate Commissioner, through the Deputy Associate Commissioner.

2. Staffing Structure of the Resources Division.

a. Central Office -- The headquarters component is comprised of the Resources Division Manager (Controller), and a small support staff of accountants and administrative personnel. In addition to providing the policy guidance for the division, this staff prepares the corporate consolidated financial statements and issues all required statistical reports for external governmental purposes. This staff also maintains the corporate accounting ledgers.

b. Field Location UNICOR Business Offices - The accounting records for the operation of UNICOR's production factories and service shops are generally maintained in the Federal Correctional Institutions, U.S. Penitentiaries or other correctional facilities where these industrial activities are located. There are exceptions where it is more economical or efficient to maintain the records at a remote location, usually another UNICOR Business Office. Each business office is under the direction of a Business Manager, with a support staff of a size commensurate with the workload which varies according to the number of factories involved. A separate set of records is maintained for each factory, and uniform reports are prepared monthly. As of July 1982, the accounting procedures employed are primarily manual in nature, supported by electronic posting machines in the UNICOR business offices. However, the Corporation is making a gradual transition to a computerized system for accumulating the financial data and transmitting the reports to the Central Office. To the maximum extent practicable, consistent with sound internal controls, inmate clerks are assigned to supplement the civilian personnel in these offices. These clerks perform most of the clerical and accounting tasks under the direction of and review by the civilian staff which functions basically in a supervisory capacity. The staff generally includes accountants, contracting officers and warehouse personnel in addition to the Business Manager.

The UNICOR Business Managers, as part of the Resources Division, are the professionals responsible for financial matters and the financial implications of proposed courses of action. In this capacity, they perform a valuable function by advising operating management officials on cash availability, propriety of procurement action, credibility of suppliers, accuracy of cost allocations and other related financial matters. Providing advice on such matters is designed to avoid pitfalls and assist in applying efficient management and operating techniques. The Superintendent of Industries is also responsible for Business Office

activities as part of his/her overall responsibility for UNICOR operations at their field location. Those responsibilities include periodic performance evaluations of the Business Manager, with input from the Controller.

3. Specific Transactions Requiring Controller's Approval.

a. Authorization and termination of designated certifying officers at all locations.

b. Approval of Contracting Officer at all locations.

c. General concurrence with selection of all non-delegated Resources Division positions at the field level, as well as Central Office staff.

d. Control of meritorious pay, vocational training and Central Office Administration expenditures within the parameters established by Congressional annual appropriation legislation.

e. Control of Central Office expenditures for machinery and equipment items, approval of special authorizations (\$5,000 or more per line item) for the acquisition of nonproduction type equipment and provide quarterly reports on the status of planned machinery and equipment acquisitions.

f. Approval of factory Board of Survey valuation of surplus property acquisitions involving line items valued in excess of \$5,000.

107. FINANCING UNICOR OPERATIONS

1. UNICOR operations are financed by the sale of its manufactured products rather than allocations from appropriated funds. While UNICOR's budget process is used to estimate sales volume and related costs for the year, it does not control procurement action to the same extent as operating budgets control Congressional allocations. UNICOR's pre-validation process for procurement action is concerned with the availability of a sales order rather than fund allocation. Sales generate the funds required to pay for operating costs and expenses. There are exceptions. Vocational training expenditures and administrative expenses for Central Office activities are limited by Congressional appropriation language. UNICOR establishes its own limitations, frequently based on Congressional mandates, in such areas as travel expenses, meritorious pay for Bureau of Prison inmates and major equipment and facility expenditures. Pre-validation procedures are required for expenditures in these areas.

2. While pre-validation procedures are not generally appropriate for UNICOR financial activities, effective control of UNICOR cash balances is a necessity. Since UNICOR is self-supporting, sophisticated plans are developed to assure that production activity generates sufficient cash to meet operating needs. Vendor invoices should be paid promptly, but consistent with current Federal cash management policies. Good relations must be maintained with desired sources of supply. Adequate facilities and equipment must be available, payrolls must be promptly paid, and sufficient quantities of raw materials must be on hand to keep production lines moving.

3. All monetary receipts of UNICOR factories are deposited to a Corporation account with the Treasury of the United States and are subject to use by corporation entities in accordance with laws generally applicable to Departments of the Government. There is only one account for the Corporation. All institution business offices use this account, and individual factory cash balances are maintained for internal purposes.

4. Deposits and disbursements are identified by Treasury accounting station codes for each UNICOR location. Monthly deposits and disbursements by location are subject to reconciliation with the Treasury. In addition the UNICOR cash account balance with Treasury is subject to monthly reconciliation. Cash availability by factory at a UNICOR location is controlled at the HQ level, Resources Division in coordination with the location Business Manager. Cash transfers by journal entry among the factories are made as necessary. These transfers are not processed through Treasury as they have no effect upon UNICOR's cash account balance with the U.S. Treasury.

108. BUDGET PROCESS. UNICOR's budget activity is an annual process to project corporate expectations. The process is not designed as a basis for obtaining funds as with most Government agencies. However the process does provide a basis for controls, coordination, communication and motivation, features of any effective budget process. Each factory and management unit identifies its objectives and projected financial activity which is coordinated into corporate goals and objectives and financial projections.

Minor appropriation controls are established for corporate administrative expenses, vocational training expenditures and meritorious pay. The remaining financial projections are related to production estimates.

109. PAYROLL FUNCTION. The payroll function for UNICOR is segregated into two categories, civilian payroll and inmate payroll.

1. Civilian payroll is processed entirely by the Department of Justice based on information given them by UNICOR's time and attendance clerks. Bi-weekly the Department of Justice provides UNICOR with earnings statements and computer printouts (Accounting Station Posting Media, A.S.P.M.) which support the actual checks produced by Treasury per the Departments payroll. The A.S.P.M. is the document which provides the payroll information for UNICOR's official set of accounting records.

2. Inmate payroll is prepared within each location's Business Office and is divided into two types of pay: pay for those inmates working within the industries and performance pay for inmates working on institutional assignments. Payment for inmates working within the industries are based on their experience and longevity within UNICOR institutions. Inmates receiving performance pay receive compensation dependent upon assignment by the Warden. Inmates under the performance pay system are not associated with any function of the UNICOR industries.

110. REPORTS

1. Basic Requirements. The UNICOR accounting system is designed to enable the prompt preparation of all needed financial reports. UNICOR reports clearly disclose significant financial facts about UNICOR operations and activities. They are prepared and issued as often as necessary to be of maximum use to management officials and to meet prescribed external requirements. Both external and internal reports are prepared from the same source data and should be in agreement. External reports are designed to meet the requirements of control agencies and internal reports to meet the needs of UNICOR management. Internal reports include (1) statements of assets and liabilities (Balance Sheet) and (2) statements concerning the results of operations (Income and Expense).

2. Type and Content of Reports. The following discussion addresses the major categories of UNICOR accounting reports.

a. Financial Position (Balance Sheet). Field Business Offices and the Central Office prepare statements of assets and liabilities relating to their factories or activities. Such statements should disclose the major categories of assets, the amount and nature of significant contingent liabilities, and such explanatory information on the assets and liabilities as is necessary to fully and clearly disclose the financial position of the reporting office.

b. Results of Operation. Applicable costs incurred to produce revenues from sales of materials or services is compared or matched with the amount of such revenues in preparing financial reports on revenue-producing operations. The difference between revenues and applicable costs and expense represents the financial results of these operations as measured by the increase or decrease in the net assets of each factory or activity.

c. Sources and Application of Funds. Annual corporate statements of financial position and results of operations prepared by the Resources Division are accompanied by statements of sources and application of funds. All significant items must be shown separately, as either a source or application of funds.

d. Treasury Reports. UNICOR Business Offices and the Central Office prepare reports and information relating to financial condition and operations as required by the Treasury Department. UNICOR accounts relating to cash and other financial transactions are maintained in such a manner as to facilitate the prompt and accurate preparation of reports.

3. Other. Each UNICOR field location supplies the Resources Division with monthly balance sheets, income statements, and a statement of cash transactions. A monthly job analysis report (FPI Form 51) is submitted to Division management along with the monthly financial statement. Monthly obligation reports, SF 225, Report of Obligations, and FPI Form 78, Report of Anticipated Obligations/Reimbursements, are submitted to the

Resources Division as source data for various OMB reports. Monthly Status of Orders Reports (FPI Form 79) are submitted to Division Office for review and analysis. A Construction Budget and Progress Report (FPI Form 29) is submitted monthly to Resources Division

At the close of each quarter UNICOR locations provide reports of expenses, accounts receivable and accounts payable. Each location submits, monthly, copies of its Washington Control Register related to capital of investment account transactions. Semi-annual reports on Procurement by Civilian Agencies, Enforcement, Construction Progress, and Minority Business Development are required for Central Office reporting to the Department. During the year property items and raw material, work-in-process and finished goods inventory reports are submitted to the Resources Division for their review and analysis.

Annual reports are provided concerning Analysis of Other Income, miscellaneous sales, other expense, utilization and disposal of excess and surplus property, real property, motor vehicle, postal volume, inmate industrial pay and sundry assets. Annual operating plans are submitted to the Bureau of Prisons and Department of Justice. Based on these plans the Department provides Standard Form 132 apportionment and reapportionment schedules.

111. UNICOR'S ACCOUNTING SYSTEM

1. UNICOR's Accounting System is designed to meet the requirements of the Budget and Accounting Procedures Act of 1950 and the accounting principles, standards, and related requirements prescribed by the Department of Justice as approved by Comptroller General of the United States. The UNICOR system features accrual basis and cost accounting methodology. Sales are accounted for when invoiced. Material and labor costs and major expense items are charged to operations when used rather than when obligated, received or paid. Raw materials are recorded as an asset when received with an offsetting liability established pending payment. Major expenses items that are paid for but not used as of the end of an accounting period are reported as prepaid expenses. Major expenses items that are used but not paid for at the end of an accounting period are reported as an accrued liability. Property items are recorded as assets when received, and the costs of such items is charged to operations through periodic depreciation or amortization entries. Effective property and inventory controls are essential elements of the UNICOR accounting systems. Property responsibility assignments are enforced and effective maintenance programs are required. Inventory stock levels are established and used in the procurement process. Periodic physical inventories provide data as to the effectiveness of procedures and internal controls.

2. UNICOR's cost accounting system provides for analysis and evaluation of each production job or process. Cost variances can be promptly and specifically identified. When customer orders are received, estimates are revised or cost levels based on prior experience standards are used to establish cost and quantity expectations. A production order with control number identification initiates the production cycle. Material and labor costs and applicable overhead expenses are charged to work-in-process inventory when put into production and transferred to finished goods inventory

when the production cycle is completed. Upon sale of items produced the applicable asset value in finished goods inventory is charged as cost of goods sold to be applied against the dollar value of the sale. The actual cost of each production effort is compared with the predetermined estimate or expectation. Analysis and evaluation of any significant deviations from prior estimates discloses production efficiencies or deficiencies, effectiveness of controls and profitability of the work effort. As a result of those evaluations effective personnel evaluations can be made, production improvements recommended or decisions made to emphasize or deemphasize further involvement with that product. Tie-in of cost data with the financial accounting data provide an additional internal control feature.

112. ACCOUNTING FUNCTIONS. Sound financial planning and execution in UNICOR is accomplished through the accounting and internal control system. The purposes of the accounting system and internal control procedures are as follows:

1. Accounting. UNICOR's accounting system provides essential and reliable information on assets, liabilities, disbursements, revenues, costs and expenses. The accounting system provides for identifying classifying, recording, controlling, summarizing, reporting, analyzing, and interpreting financial data. The system is a management tool designed to (a) show the cost of producing each job or process; (b) evaluate performance on each job or process by comparing actual cost with pre-determined estimates; (c) provide a basis for financial and production planning; (d) show the status of financial condition and results of operations; (e) safeguard public funds and other resources; and (f) assure compliance with applicable laws and regulations.

2. Internal Control. UNICOR's internal control system comprises the plan of organization and coordinated methods adopted to safeguard assets, to check the accuracy and reliability of accounting data, to promote efficiency and economy of operations, and to encourage adherence to prescribed managerial policies. UNICOR's internal control system encompasses (a) internal administrative control; (b) internal accounting control; and (c) internal checks (accounting procedures or statistical, physical, or other controls which safeguard assets against waste, loss, fraud or other improper or unwarranted use).

113. OBJECTIVES OF THE UNICOR ACCOUNTING SYSTEM. UNICOR's accounting system is designed to meet all internal needs for cost and other financial data for planning, programming, budgeting, controlling, and reporting of UNICOR operations. The following specific objectives are accomplished:

1. Effective control over funds, property, other assets,

obligations, liabilities, expenditures, costs and revenues.

2. Accurate and reliable bases for developing and reporting costs of performance by (a) organizational unit, (b) job or process, and (c) program structure.

3. Flexibility in accommodating new and revised program structures to support programmatic management.

4. Full and prompt disclosure of the financial condition and results of operation and support of each major program or activity through reports based on an orderly system of controlling and recording financial transactions on the accrual basis.

5. Production of adequate financial reports and related information on a timely basis to meet the needs and objectives of internal management and to comply with external requirements, including the furnishing of financial data as required by statutory and other law, Congress, or congressional committees.

6. Production of reliable financial and cost data to be used for preparation and support of UNICOR's budgets, for controlling the execution and administration of those budgets, and for reporting to the Federal Prison System, the Department of Justice, and others as required.

7. Development of cost data for use in measuring results of operations and performance of assigned functions.

8. Suitable integration of UNICOR accounting with the Federal Prison System and Department of Justice accounting.

114. IMPROVEMENTS AND UPDATING. The UNICOR accounting system is reviewed continuously and revised as necessary to assure maximum effectiveness and usefulness to management. Officials of all organizational entities are expected to propose changes that will improve and update the accounting systems. Such proposals should be directed to the Controller.

Automated data processing and other mechanical, electric and electronic methods are considered whenever feasible and economical. Applications for automation are developed with due consideration for both potential cost savings and increased efficiency. Such applications are reviewed by the Corporate ADP Steering Committee.

115. BASIC ACCOUNTING APPLICATIONS. This section details the general application of the UNICOR accounting system.

1. Business Office Locations. As stated in paragraph 106, each location where UNICOR conducts operations has a Business Office which is responsible for recording/posting and reporting financial data as related

to that location. There is a Business Office for each field office and a Control Accountant who fulfills this function for Central Office activities.

2. Accounting Mechanism. Financial information is captured at each Business Office and the Central Office through manual posting to journals and registers and through the use of NCR electronic posting machine. This process enables personnel to record accounting transactions in various subsidiary ledgers or registers. A NCR ledger card is established for each general ledger account to enable recording and summarizing in the general ledger each month. After closing data for adjusting entries are taken from these subsidiary registers.

3. Processing Cycle. The steps involved in the accounting cycle performed in UNICOR field Business Offices and in the Central Office are as follows:

a. A NCR general ledger card is established for each account to be posted in the general ledger.

b. Source documents are received or created by accountants to provide the first record of transactions.

c. Transactions are documented/journalized on the basis of the source documents which commonly are referenced to provide an audit trail and support for the journal entries.

d. Transactions are posted manually either to a subsidiary register/journal for the applicable general ledger account(s) or via journal vouchers to the applicable NCR general ledger card.

e. Subsidiary registers/journals are closed for the month, reconciled with support documentation and posted via journal vouchers to NCR general ledger cards.

f. Accruals and other month end adjusting entries are prepared and posted via journal vouchers to NCR general ledger cards.

g. Financial statements/reports are prepared from the adjusted ledger accounts.

116. OBJECT CLASSIFICATIONS. UNICOR captures cost information by uniform object classifications as required by OMB Circular A-12. The object classifications are based on the nature of the goods or services as distinguished from the purpose for which such liabilities are incurred. As liabilities are paid, they are posted to the Voucher and Disbursement Registers. Each recording is coded with the appropriate general ledger code, which relates to an object classification and is consolidated monthly to be used in the various reports required to be submitted by object classification. Monthly accruals and adjusting entries complete the accounting for object classifications.

117. GENERAL LEDGER ACCOUNTS. The UNICOR accounting systems maintain financial information in specific general ledger accounts (assets and liability accounts). The general ledger accounts classify in summary for each appropriation all the accounting transactions of UNICOR and provide a permanent record of the financial position and results of operations. General ledger accounts are established for each factory and the Central Office. The general ledger account numbers are established and maintained by the Central Office in the Resources Division. The accounts are updated such month and are maintained on the accrual basis. Paragraph 115 explains the pro-process whereby the general ledger accounts are effected.

118. RELATIONSHIP TO THE DEPARTMENT OF JUSTICE PAYROLL SYSTEM. The Department of Justice, (DOJ) Payroll System processes the UNICOR civilian payroll. The general flow begins with the time and attendance records going from UNICOR to DOJ where all processing occurs. The results of that processing then flows to UNICOR and includes paychecks and the necessary data for accruals, disbursement and management review. This occurs each pay period. The manual interface of payroll input into the UNICOR accounting system is provided via the Accounting Station Posting Media (ASPM) report which is generated by the DOJ payroll system. Field Business Offices and the Central Office prepare journal entries to enter the payroll data into the UNICOR accounting system based upon object classification, nature of transactions, accounting period and method of payment from the ASPM. The ASPM provides a timely mechanism to verify that all civilian payroll transactions have been accurately posted and reported.

119. PERSONNEL LEADERSHIP AND TRAINING. UNICOR requires and demands positive dynamic leaders and qualified personnel for its financial management system. Responsible staff are expected to (a) challenge existing procedures; (b) precisely identify management needs and establish priorities; (c) plan and schedule program activity in substantive detail; (d) train and motivate all personnel; (e) effectively direct the actions of subordinate staff; (f) provide adequate resources; and (g) effectively coordinate financial activity with the production effort. The training and development of financial staff features accrual, cost and Automatic data Processing techniques. Organized training in these fields provides an understanding of current concepts, processes and problems, and the more skillful and economic application of modernized practices. Training activities are not limited to financial management techniques per se, but include efforts to convey to operating officials the financial service available under the integrated systems and how those techniques might best be used efficiently.

Financial management training is based on the use of available Government-wide training facilities, Department of Justice facilities, and UNICOR's own training facilities.

120. RELATIONSHIP TO OTHER SYSTEMS. Inmate activity is integrated with the Bureau of Prison's "SENTRY" system as a feature of inmate control. UNICOR's inmate payroll and contribution to the Bureau's performance pay system is integrated with the Bureau's Inmate Trust fund activity. Because financial and cost accounting have been developed as a single system, Business Office personnel must assure that accurate cost data flows into the financial accounting system.

SECTION 8501
CHART OF ACCOUNTS

--RESCINDED--

APPENDIX A

SECTION 8502

JOURNAL ENTRIES

INDEX

<u>JOURNAL ENTRY</u>	<u>SUBJECT</u>	<u>PAGE</u>
1	TRANSACTIONS AFFECTING WASHINGTON CONTROL ACCOUNT	2
5	REMITTANCES RECEIVED	5
5A	SIBAC CHARGE-BACK	6
6	RECAPTURE DONATED PROPERTY EXPENSE	7
7	TRANSPORTATION CHARGES	8
7A	WRITE-OFF TRANSPORTATION CHARGES	9
8	TANGIBLE PROPERTY RECEIVED	10
8A	RETURNS FROM CUSTOMER	11
8B	RECEIPT OF DONATED PROPERTY	12
8C	ESTABLISH A VOUCHER	13
8D	CERTIFY A VOUCHER FOR PAYMENT	14
9	VOUCHERS PASSED FOR PAYMENT	15
9A	DISCONTINUING A FACTORY	17
9B	BAILMENT PROPERTY	18
10	ACCRUALS	19
11	ACCRUAL REVERSAL	20
12	MATERIALS AND SUPPLIES ISSUES/RETURNS	21
12A	ADJUSTMENTS TO INVENTORY/EQUIPMENT	22
13	DISBURSEMENTS	23
14	CHECK CANCELLATIONS	24
16	DEPRECIATION CHARGES	25

JOURNAL ENTRIES INDEX
(Continued)

<u>JOURNAL ENTRY</u>	<u>SUBJECT</u>	<u>PAGE</u>
17	APPLIED OVERHEAD EXPENSE	26
18	COST OF COMPLETED PRODUCTION	27
18A	FINISHED GOODS SENT TO FINISHER	28
19	COST OF FINISHED GOODS WITHDRAWN	29
19A	REVERSE ERRONEOUS SIBAC BILLING	30
20	REDISTRIBUTION OF EXPENSE	31
21	SURVEY OF FIXED ASSET ITEMS	32
21A	DEVALUE FIXED ASSETS FOR CATASTROPHIC DAMAGE	33
21B	INVENTORY LOSSES FROM CATASTROPHIC EVENT	34
21C	95% ADJUSTMENT OF FINISHED GOODS	35
22	BILLINGS FOR THE MONTH	36
22A	SCRAP SALES	37
22B	SALES RETURN FOR REWORK	38
23	UNCOLLECTABLE ACCOUNTS RECEIVABLE	39
24	CLOSE OF CONSTRUCTION ACCOUNT	40
25	ANNUAL LEAVE ACCRUAL INCREASE/DECREASE	41
26	INVENTORY OVERAGES/SHORTAGES	42
26A	RM&S SHORTAGE ADJUSTMENT	43
26B	CENTRAL OFFICE DIRECTED ALLOWANCES	44
26C	DISPOSAL OF PROPERTY WITH AN ALLOWANCE	45
26D	SHORTAGE OF SHOPSTOCK	46

JOURNAL ENTRIES INDEX
(Continued)

<u>JOURNAL ENTRY</u>	<u>SUBJECT</u>	<u>PAGE</u>
27	DONATIONS TO NON-UNICOR ACTIVITIES	47
31	CLOSE OF NOMINAL ACCOUNTS	48
32	CLOSE OF WASHINGTON CONTROL/ PROFIT AND LOSS (FIELD)	49
33	CLOSE CURRENT YEAR TO PRIOR YEAR'S BALANCE	50
40	CLOSE OF DIVISION AND CORPORATE EXPENSE ACCOUNTS	51
41	CLOSE OF WASHINGTON CONTROL TO PROFIT OR LOSS (WASHINGTON)	52
43	CLOSE OF RESULTS OF OPERATIONS	53
44	DISTRIBUTION OF EARNINGS	54

SECTION 8502

JOURNAL ENTRIES

100. GENERAL

Explanations of each of the following journal entries are appropriate for most transactions. However such explanations should be changed to properly describe your specific transactions. Identify the original and all copies of each journal entry as to location and facto

JOURNAL ENTRY 1

DR.:	ACCT	
	11010	Cash-Operating
	12010	Gov. Billings-Other
	12060	Combination Settlements (Contra)
	13010	Raw Material and Supplies
	1601-	Machinery and Equipment
	16020	Accumulated Depreciation, M&E Inventory
	16030	Buildings & Improvements
	16040	Accumulated Depreciation, B&I
	160--	Construction (Use appropriate account.)
	18040	Assets In Transit
	22000	Unvouchered Receipts
	24000	Accrued Expenses
	25000	Special Deposits Payable
	26000	Contingent Annual Leave
	29010	Liabilities In Transit
	33---	Washington Control (WC)
	42020	Returns and Allowances, Transfer Sales
	42030	Sales Return for Rework, Transfer Sales
	61---*	Actual Overhead
	63---*	Selling Expense
	64---*	Pre-Industrial Training
	65---*	Other Expense
	66---*	Support Division Expense
	67---*	Product Division Expense
	7101-	Miscellaneous Sales
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental
Cr.:	11010	Cash-Operating
	12012	Gov. Billings-Other
	13010	Raw Materials and Supplies
	15010	Finished Goods Manufactured
	1601-	Machinery and Equipment
	16020	Accumulated Depreciation, M&E Inventory
	16030	Buildings and Improvements
	16040	Accumulated Depreciation, B&I
	160--	Construction (Use appropriate account.)
	18040	Assets In Transit
	26000	Contingent Annual Leave
	29010	Liabilities In Transit
	33---	Washington Control (WC)
	42010	Transfer Sales
	61---*	Actual Overhead

* - Use General Subsidiary Account.

JOURNAL ENTRY 1 (continued)

Cr.:	ACCT	
	63---*	Selling Expense
	64---*	Pre-Industrial Training
	65---*	Other Expense
	66---*	Support Division Expense
	67---*	Product Division Expense
	7101-	Miscellaneous Sales
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental

To record field location and Washington office transactions affecting the Washington Control Account, i.e., cash transfers, raw material and fixed asset transfers, product sales, expense reimbursements, contingent annual leave transfers, and combination settlements. May be a debit or credit entry due to the reciprocal nature of Washington Control transactions. (See Page 8502-4 for detail by type of transaction.)

Source: Washington Control Register. A copy of the field location register shall be forwarded to the Controller at the close of each month.

- NOTE: 1. PCS voucher transfer of costs through FPI Form 5s must include a breakdown as follows:
- a. Change of Duty Station (Object Class 12) - house hunting trip, subsistence, and temporary quarters allowance, real estate costs, miscellaneous expense allowance.
 - b. Change of Duty Station (Object Class 21) - travel costs.
 - c. Transportation and Storage of Household Goods (Object Class 22) Chart of Accounts, paragraph 103, General Subsidiary Accounts 231, 232, 235, and 236, respectively.
2. The accounts shown may have a debit or credit balance.

(1) - Washington Office use only.
* - Subsidiary account required.

Appendix - Journal Entry 1

Washington Control Register Transaction
(Detail by type of transaction)

<u>SENDING LOCATION**</u>	<u>DEBIT</u>	<u>CREDIT</u>
Interindustry Sales	33040	42010
Sales Returns (received back)**	18040	33040
Combination Settlement	12060	33040
Annual Leave Liability	26000	33040
Penalty Mail Transfer	24000	33040
Expense Transfer	33040	61---*, 63---*, 64---*, 65---*, (**see note below)

RECEIVING LOCATION

Assets

Interindustry Sales	18040	33040
Sales Returns (sent back)	33040	1----
		(appropriate account)
Combination Settlement	33040	18040
Prototype Costs	18040	33040

Liabilities

Annual Leave Liability	33040	29010
Penalty Mail Transfer	33040	29010

Expenses

Expense Transfer	65900	33040
------------------	-------	-------

** The sending location will complete both sides of the accounting on the Automated FPI Form 5 Billing. The "In Transit" accounts will be used for the location which will be charged. Note that in the above transactions, the "Receiving Location" is billing the "Sending Location" for Sales Returns and, therefore, will complete both sides of the transaction. The "Receiving" (charged) location will clear the "In Transit" account(s) once the transferred items or the documentation (for charges which do not require shipping) are received. Balances in an "In Transit" account indicate the "Receiving" location has not received the items or documentation for charges which have been transferred.

* - Subsidiary account required.

JOURNAL ENTRY 5

DR.:	ACCT	
	11---	Cash
	61---*	Actual Overhead
	63---*	Selling Expense
	64---*	Pre-Industrial Training
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental
Cr.:	12---	Accounts Receivable (see Note below)
	25000	Special Deposits Payable
	65---	Other Expense

To record cash and SIBAC collections received for the month, including receipts from combination settlements, collection of written-off receivables, and other special deposit items.

Source: FPI Form 36, Register of Remittances Received

NOTE: In combination settlements (receipt from customer covering invoices from two or more different factories), provide the location that does not receive the payment with an FPI Form 5 and support documentation. Record issuance of the FPI Form 5 in the automated FPI Form 5, debiting Account 12060 and crediting 33040 (see JE 1).

(1) - Washington Office use only.

* - Subsidiary account required. To record adjustments for receipt of transportation refunds to the extent that the receipt differs from estimates established in JE 22A. Use subaccounts 211 through 214, Regular Travel.

JOURNAL ENTRY 5A

	ACCT	
DR:	11010	Cash - Operating
	41010	Sales-Other Government Agencies
	41020	Returns & Allowances, Government Sales
	41030	Sales Return for Rework, Government Sales
Cr.:	11010	Cash-Operating
	XXXXX	Appropriate Account

To record SIBAC chargeback as the result of overbilling, incorrect ALC code, allowance, or customer return of goods.

Source: The SIBAC Chargeback section of the CBR (Collection Bill Register) which contains appropriate documentation of the nature/cause of the chargeback. (e.g. S.F. 238, SIBAC Adjustment Voucher for chargebacks).

Note: This journal entry will be used to record all chargebacks, regardless of the source. That is, chargebacks initiated by UNICOR against other government agencies (e.g. GSA), as well as, chargebacks initiated by other agencies against UNICOR will be included in this journal entry. See JE 19A for other accounting affected by chargebacks.

JOURNAL ENTRY 6

DR.:	ACCT 32---	Donated Property
Cr.:	72000	Recapture of Donated Property

To recapture expenses and depreciation charges on assets originally received as donations.

Source: FPI Form 13

JOURNAL ENTRY 7

	ACCT	
DR.:	1301-	Raw Materials and Supplies
	1601-	Machinery And Equipment
	160--	Construction (Use appropriate account.)
	61---*	Actual Overhead
	63---*	Selling Expense
	64---*	Pre-Industrial Training
	65---*	Other Expense
	66---*	Support Division Expense
	67---*	Product Division Expense
	68---*	Corporate Expense
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental
Cr.:	23000	Transportation Expense Payable

To record transportation costs for the month.

Source: Transportation Reserve Register

NOTE: It is preferable to charge transportation costs on incoming items to a particular material, supply item, or piece of equipment; however, where the amount is small, or it is impractical to charge an asset account, it may be charged to expense. All charges shall be made to General Subsidiary Accounts 2--, Travel Expense, or 4-- shipping & transportation, as applicable.

* - Subsidiary account required.

JOURNAL ENTRY 7A

Dr.:	ACCT 23000	Transportation Expense Payable
Cr.:	74000	Other Income

To write off transportation items for billing that was not received.

Source: Periodic review of open transportation items as documented on Journal Voucher.

JOURNAL ENTRY 8

	ACCT	
Dr.:	13010	Raw Materials and Supplies
	13030	Defective Materials
	14010	Materials in Process
	15020	Outside Purchases
	1601-	Machinery and Equipment
	16030	Buildings and Improvements
	160--	Construction (Use appropriate account.)
	61---*	Actual Overhead
	63---*	Selling Expense
	64---*	Pre-Industrial Training
	65---*	Other Expense
	66---*	Support Division Expense
	67---*	Product Division Expense
	68---*	Corporate Expense
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental
	84000	Extraordinary Losses
Cr.:	14040	Work in Progress at Finisher
	16020	Accumulated Depreciation, M&E Inventory
	22000	Unvouchered Receipts

To record tangible property received for the month at values net of discounts allowed. Include direct issues of raw material into production through Account 14010, Material in Process. Account 13030, Defective Materials, is used for raw material receipts that do not meet procurement specifications.

Source: Receiving Report Register.

* - Subsidiary account required.

JOURNAL ENTRY 8A

	ACCT	
Dr.:	1301-	Raw Materials and Supplies
	13030	Defective Materials
	15010	Finished Goods Manufactured
	54000	Abnormal Costs
Cr.:	51000	COS-Other Government Agencies
	52000	Cost of Transfer Sales

To record return of tangible property from customers as unacceptable. Those requiring limited cost of rework are charged to Finished Goods. Those requiring substantial rework, charged as Defective Materials (Account 13030), at the Quality Assurance valuation with the projected loss charged to Account 54000, Abnormal Costs.

Source: Receiving Report Register and Quality Assurance
Defective Work/Scrap Report FPI Form 31.

NOTE: Journal Entry 22B is required to record sales return and accounts receivable write-off. If the receivable has been paid, record as a liability for bailment material (See Section 8506).

JOURNAL ENTRY 8B

Dr.:	ACCT	
	13010	RM&S-Donated
	1601-	M&E
	16030	Buildings & Improvements
Cr.:	32010	Donated Property-Current Year

To record receipt of property from other government agencies, without exchange of funds, at fair market value.

Source: Board of Survey

JOURNAL ENTRY 8C

	ACCT	
Dr.:	12020	Travel Advances
	14010	Materials in Process
	14020	Labor in Process
	22000	Unvouchered Receipts
	23000	Transportation Expense Payable
	26000	Contingent Annual Leave
	61---*	Actual Overhead
	63---*	Selling Expense
	64---*	Pre-Industrial Training
	65---*	Other Expense
	83000	Inmate Performance Pay
Cr.:	21500	Vouchered Receipts

To recognize the establishment of vouchers for payment.

Source: Upon receipt of both a FPI Form 11, Receiving Report, and an invoice, a voucher will be established by an approving official. This enters a payment due date into the aging process and allows tracking of vouchers through final certification and payment.

JOURNAL ENTRY 8D

Dr.:	ACCT 21500	Vouchered Receipts
Cr.:	21000	Vouchers in Transit

To record the certification of vouchers for payment.

Source: Vouchers which have been passed for payment by the certifying officer. Normally, these will be vouchers which have been in the Vouchered Receipts, 21500, Account and are scheduled for payment under the Prompt Payment Act.

JOURNAL ENTRY 9

Dr.:	ACCT	
	11020	Cash-Special Deposits
	12020	Travel Advance (for scheduled advances)
	13010	Raw Material and Supplies (may require a credit entry)
	14010	Materials in Process
	14020	Labor in Process
	1601-	Machinery and Equipment
	160--	Construction (Use appropriate account.)
	22000	Unvouchered Receipts
	23000	Transportation Expense Payable
	26000	Contingent Annual Leave
	27000	Accounts Payable Deferred
	61---*	Actual Overhead
	63---*	Selling Expense (see note below)
	64---*	Pre-Industrial Training
	65---*	Other Expense
	66---*	Support Division Expense
	67---*	Product Division Expense
	68---*	Corporate Expense
	73020	Cost of Reimbursable Services
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental
	83000	Inmate Performance Pay
	84000	Extraordinary Losses
Cr.:	11010	Cash-Operating
	12020	Travel Advances (for settled advances)
	1601-	Machinery & Equipment
	160--	Construction (Use appropriate account.)
	21000	Vouchers In-Transit
	25000	Special Deposits Payable
	61---*	Actual Overhead
	63---*	Selling Expense (see note below)
	64---*	Pre-Industrial Training Expense
	66---*	Support Division Expense
	67---*	Product Division Expense
	68---*	Corporate Expense

JOURNAL ENTRY 9 (Continued)

ACCT

81---* Vocational Training-Regular

82---* Vocational Training-Experimental

To record approved vouchers passed for payment for the month, including biweekly civilian payroll. (Deductions for reservation housing is to be remitted to BOP monthly and reversed through JE 13.) Those initially recorded to unvouchered receipts may require a debit or credit to an asset or expense account to adjust for actual payments. Interest Paid or Discounts Lost should be charged to subsidiary accounts, 730-- and 742, respectively.

Source: Summary of Voucher Register

NOTE: Sub-Account 63410, Shipping Cost Billed to Customers, should be charged with UNICOR vehicle expenses related to transportation of customer products both incoming (products to be refurbished) and outgoing.

* - Subsidiary account required.

JOURNAL ENTRY 9A

	ACCT	
DR.:	16020	Accumulated Depreciation, M&E Inventory
	16040	Accumulated Depreciation, B&I
CR.:	13010	Raw Materials and Supplies
	14---	Work in Process
	15---	Finished Goods
	1601-	Machinery and Equipment
	16030	Buildings and Improvements
	21000	Vouchers in Transit

Upon discontinuing a factory, a product line, or a method of operation, record value of nontransferable assets. (Disposal of previously donated property, see JE 27). In addition, record expenditures involved in the liquidation process.

Source: Board of Survey valuations, General Ledger account balances, and Voucher Register.

JOURNAL ENTRY 9B

DR.: ACCT
 22000 Unvouchered Receipts

Cr.: 28000 Bailment Liability

To record the value of Government Furnished Property (bailment property) received during the month.

JOURNAL ENTRY 10

	ACCT	
DR.:	14020	Labor in Process (see note below)
	160--	Construction (Use appropriate account.)
	61---*	Actual Overhead
	63---*	Selling Expense
	64---*	Pre-Industrial Training
	66---*	Support Division Expense
	67---*	Product Division Expense
	68---*	Corporate Expense
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental
	83000	Inmate Performance Pay
Cr.:	24000	Accrued Expenses

To set up accrued expense (payrolls, utilities, etc.) at the end of the month.

Source: FPI Form 21 for inmate payroll, computations based on prior month's activity, specific support documents, etc.

NOTE: Use only when it is necessary to accrue inmate payrolls.

Upon automation, additional Journal Entry is necessary.

* - Subsidiary account required.

JOURNAL ENTRY 11

Dr.:	ACCT 24---	Accrued Expenses
Cr.:	14020	Labor in Process
	160--	Construction Control (Use appropriate account.)
	61---*	Actual Overhead
	63---*	Selling Expense
	64---*	Pre-Industrial Training
	66---*	Support Division Expense
	67---*	Product Division Expense
	68---*	Corporate Expense
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental
	83000	Inmate Performance Pay

To reverse accruals (payrolls, etc.) set up at close of last month and monthly accruals set up for quarterly transfer to Resources Division.

Source: Prior month JE 10.

Upon automation, additional Journal Entry is necessary.

* - Subsidiary account required.

JOURNAL ENTRY 12

	ACCT	
Dr.:	12030	Public Billings
	13---	Raw Materials and Supplies
	14010	Materials in Process
	15020	Outside Purchases
	1601-	Machinery and Equipment
	160--	Construction (Use appropriate account.)
	54000	Abnormal Costs
	61---*	Actual Overhead
	63---*	Selling Expense (see Note 1)
	64---*	Pre-Industrial Training
	65---*	Other Expenses
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental
Cr.:	13010	Raw Materials and Supplies (see Note 2)
	13020	Shopstock
	13030	Defective Materials
	14010	Materials in Process (see note 3)
	15010	Finished Goods Manufactured (see note 3)

To record inventory items issued for the month.

Source: Summary of Requisition Register.

- NOTE:
1. Inventory items used as samples, promotional items, etc.
 2. Includes completed component parts of a product issued for sale. Materials must be processed through Work in Process and Finished Goods or Cost of Miscellaneous Sales.
 3. Excess inventories returned to Raw Materials and Supplies Inventory.

* - Subsidiary account required.

JOURNAL ENTRY 12A

Dr.:	ACCT	
	53020	Inventory Overages/Shortages
	6532-	Other Expense/Damaged/Obsolete Property
Cr.:	7102-	Cost of Miscellaneous Sales

To record adjustments on inventory/equipment transfers to other UNICOR locations.

Source: Adjustments determined from FPI Form 5 documentation from another UNICOR function.

JOURNAL ENTRY 13

Dr.:	ACCT	
	21000	Vouchers in Transit
	25000	Special Deposits Payable
	27000	Accounts Payable Deferred
Cr.:	11---	Cash

To record payments by Disbursing Officer for the month, including payment from the special deposits account.

Source: Disbursement Register

JOURNAL ENTRY 14

Dr.:	ACCT	
	11010	Cash-Operating
Cr.:	27000	Accounts Payable Deferred
	74000	Other Income

To record check cancellations either as (1) deferred with further research required to effect payment, or (2) those determined as payment impossible with their value credited to Other Income.

Source: Disbursement Register, Check cancellations documentation.

JOURNAL ENTRY 16

	ACCT	
Dr.:	61---*	Actual Overhead
	64---*	Pre-Industrial Training
	66---*	Support Division Expense
	67---*	Product Division Expense
	68---*	Corporate Expense
Cr.:	16020	Accumulated Depreciation, M&E Inventory
	16040	Accumulated Depreciation, B&I

To set up depreciation charges for the month.

Source: Depreciation expense schedule from FPI Form 13.

* - Use subsidiary account 371 or 372, Depreciation, M&E Inventory or 373, Depreciation, B&I as applicable.

JOURNAL ENTRY 17

Dr.:	ACCT	
	14030	Overhead in Process
	160--	Construction (Use appropriate account)
Cr.:	62000	Overhead Expense Applied

To charge work in process and construction, if applicable, with applied overhead expenses incurred for the month.

Source: FPI Form 9 as summarized in the FPI Form 51.

NOTE: The difference between Account 62000 (Credits) and total overhead expenses for the month provides an overhead variance (may be a debit or credit amount) for Income Statement presentation purposes.

* - Subsidiary account required.

JOURNAL ENTRY 18

Dr.:	ACCT	
	13010	Raw Materials and Supplies
	15010	Finished Goods Manufactured
	53010	Inventory Valuation Write-off
	54000	Abnormal Cost (Credit if rework cost is less than estimate)
Cr.:	14010	Materials in Process
	14020	Labor in Process
	14030	Overhead in Process

To record cost of completed production for the month, adjustments for costs in excess of 95% of selling price for items retained in finished goods inventory, and production of rework activity for the month. Finished goods charges for rework shall be limited to the original cost of sales for the reworked jobs. Also includes completed parts, such as chair arms returned to Raw Materials and Supplies. See JE 21C for selling price adjustments on items placed in Finished Goods during prior months. Source: Finished Goods Register.

NOTE: Account 54000, Cost of Sales, Abnormal Costs, is used for rework cost variations from the estimates reported on Quality Assurance "Defective Work/Scrap Report", FPI Form 31. (See JE 8A)

JOURNAL ENTRY 18A

Dr.:	ACCT 14040	Work in Process at Finisher
Cr.:	14010	Materials in Process
	14020	Labor in Process
	14030	Overhead in Process

To record items in Work in Process shipped to a finisher.

Source: Advice of Shipment.

JOURNAL ENTRY 19

	ACCT	
Dr.:	16020	Accumulated Depreciation, M&E Inventory
	22000	Unvouchered Receipts
	51000	Cost of Sales-Other Government Agencies
	52000	Cost of Transfer Sales
	7102-	Cost of Miscellaneous Sales
Cr.:	13010	Raw Material and Supplies
	13030	Defective Materials
	15010	Finished Goods Manufactured
	15020	Outside Purchases
	1601-	Machinery and Equipment

To record cost of inventory or equipment withdrawn for the month for sale to other agencies or for sale or transfer to other UNICOR operations. Also used for return of defective goods to vendor.

Source: Shipping Orders and Cost of Sales Register.

JOURNAL ENTRY 19A

Dr.:	ACCT 15010	Finished Goods Manufactured
Cr.:	51000	Cost of Sales-Other Government Agencies
	7102-	Cost of Miscellaneous Sales

To reverse erroneous SIBAC billing.

Source: SF 238, SIBAC Adjustment Voucher for Chargebacks.

JOURNAL ENTRY 20

	ACCT	
Dr.:	61---*	Actual Overhead
	64---*	Pre-Industrial Training
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental
Cr.:	61---*	Actual Overhead
	64---*	Pre-Industrial Training
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental

To record portion of expense redistributed within the industry for the month. Applicable to industries that maintain expense accounts for separate departments. Expense items are accumulated in one department and pro-rated among departments on the basis of a predetermined distribution formula.

Source: Annual distribution schedule or formula as developed in accordance with the provision of Section 8506, paragraph 605.

* - Subsidiary account required.

JOURNAL ENTRY 21

Dr.:	ACCT	
	1601-	Machinery and Equipment
	16020	Accumulated Depreciation, M&E Inventory
	16040	Accumulated Depreciation, B&I
	32---	Donated Property
	61325	Production Expense/Damaged/Obsolete Property-Fixed Assets (Credit if gain)
	65325	Other Expense/Damaged/Obsolete Property- Fixed Assets (Credit if gain)
	7102-	Cost of Miscellaneous Sales
Cr.:	1601-	Machinery and Equipment
	16030	Buildings and Improvements

To record survey of fixed-asset items (donated or purchased) for trade-in, sale, or scrap.

Source: Board of Survey documentation providing authority for disposal.

JOURNAL ENTRY 21A

Dr.:	ACCT	
	16020	Accumulated Depreciation, M&E
	16040	Accumulated Depreciation, B&I
	32---	Donated Property
	84000	Extraordinary Losses
Cr::	1601-	Machinery and Equipment
	16030	Buildings and Improvements

To record valuation loss on fixed-asset items due to catastrophic damage.

Source: Board of Survey documentation authorizing abandonment.

JOURNAL ENTRY 21B

	ACCT	
Dr.:	32---	Donated Property
	84000	Extraordinary Losses
Cr.:	13010	Raw Materials and Supplies
	13020	Shopstock
	14---	Work in Process
	15---	Finished Goods

To record inventory losses due to catastrophic event such as fire, flood, wind, riot, etc.

Source: Documentation reporting the loss and valuation of that loss.

JOURNAL ENTRY 21C

Dr.:	ACCT 53010	Inventory Valuation Write-off
Cr.:	15---	Finished Goods

To record adjustment of Finished Goods inventory to 95% of sales price.

Source: Review of goods in Finished Goods Inventory.

JOURNAL ENTRY 22

	ACCT	
Dr.:	12---	Accounts Receivable
	27000	Accounts Payable Deferred
	41020	Returns and Allowances, Government Sales
	42020	Returns and Allowances, Transfer Sales
Cr.:	12---	Accounts Receivable
	41010	Sales-Other Government Agencies
	63410	Selling Expense/Shipping Cost Billed to Customer
	63420	Selling Expense/Shipping Cost Not Billed to Customer
	63430	Selling Expense/ Other Freight, Express and Parcel Post
	73---	Reimbursable Services

To record billings, including shipment of reworked items, for the month of _____, per summary of Collection Bill Register. Credit memos for the physical return of goods and allowances granted to customers shall be charged to Account 41020 or 42020, Returns and Allowances, Government Sales, or Transfer Sales, respectively. Credit memos issued because of errors in billings shall be considered contras to the billings, and shall reduce the total credit to Sales. A debit in Accounts Payable Deferred as applies to disclosed bailment stock shortages that is credited on customer invoice.

Source: Collection Bill Register.

NOTE: Other Expense Account 63410 is credited for freight paid by UNICOR and billed to customer, and for cost of transportation supplied by UNICOR vehicles and billed to customers.

JOURNAL ENTRY 22A

Dr.:	ACCT	
	12030	Public Billings
	7102-	Cost of Miscellaneous Sales
Cr.:	13040	Scrap at net realizable value
	160--	Construction (Use appropriate account.)
	63---*	Selling Expense
	71---	Miscellaneous Sales

To record sale of scrap, removal from scrap inventory and charge to cost of miscellaneous sales. Record sale of surveyed fixed-asset items as scrap, as directed by Board of Survey action. (See JE 21 for cost of sale). Credit Construction, 160--, for excess material returned to the supplier for credit. Record estimate of refunds due on unused transportation tickets returned for credit.

Source: Collection Bill Register.

NOTE: Adjustment of estimate to actual will be made as part of JE 5 upon receipt of refund. Use subsidiary account 2--, Travel Expense, for unused transportation tickets.

* - Subsidiary account required.

JOURNAL ENTRY 22B

Dr.:	ACCT 41030	Sales Return for Rework, Government Sales
Cr.:	12010	Government Billings
	12040	Unbilled Receivables-Current
	27000	Accounts Payable Deferred

To record return of sales for rework. If not paid for, credit the appropriate account in Accounts Receivable, and, if paid for, credit Accounts Payable Deferred, 27000.

Source: Credit memorandum identifying amount credited to customer.

NOTE: See JE 8A for recording of products returned by customers for rework.

JOURNAL ENTRY 23

Dr.:	ACCT 65760	Other Expense/Bad Debt Expense
Cr.:	12---	Accounts Receivable

To write off uncollected accounts receivable after collection effort confirmation.

Source: Approving official's certification that the amount is uncollectible.

JOURNAL ENTRY 24

Dr.:	ACCT 16030	Building and Improvements
Cr.:	1605-	Construction - Current Year (Use appropriate account.)
	1606-	Construction - Prior Year (Use appropriate account.)

To close construction account upon completion of construction, or to summarize Start-Up and Prototype Costs upon completion of their respective projects.

Source: Final construction or project report, or other supporting data having accepted approvals.

JOURNAL ENTRY 25

	ACCT	
Dr.:	160--	Construction (Use appropriate account.)
	61---*	Actual Overhead
	64---*	Pre-Industrial Training
	66---*	Support Division Expense
	67---*	Product Division Expense
	68---*	Corporate Expense
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental
Cr.:	26000	Contingent Annual Leave

To record increase in annual leave over previous fiscal year per comparative schedule of accumulated leave dated September 30. For decreases, reverse entry.

Source: Annual computation schedule of each employees leave balance to establish Contingent Annual Leave balance as of fiscal year-end.

* - Use subsidiary account 118, Contingent Annual Leave.

JOURNAL ENTRY 26

Dr.:	ACCT xx32-	Inventory Overages/Shortages/ Damaged/Obsolete Property
Cr.:	14010	Materials in Process
	14020	Labor in Process
	14030	Overhead in Process
	15---	Finished Goods
	1601-	Machinery and Equipment

To record inventory and equipment shortages as the result of physical inventories (contra entry if overages; copy of the Journal Entry shall be sent to the Washington Office). This entry is also used for write-off of damaged or obsolete items that have not been processed through allowance for damage/obsolescence procedures. (See JE 26B and 26C.)

Source: Summary physical inventory sheets.

NOTE: Review and analysis of physical inventory overages and shortages must be made prior to making adjustments. If the overages and shortages can be related to a specific production job or process, the adjustments should be made to the pertinent costs of production for those jobs or processes. This analysis should consider jobs in process, those related to finished goods, and those related to prior shipments. The applicable inventory summary shall list all overages and shortages discovered during the inventory.

JOURNAL ENTRY 26A

Dr.:	ACCT	
	14010	Materials in Process
	6132-	Production Expense/Damaged/Obsolete Property
	6532-	Other Expense/ (a) Damaged/Obsolete Property
Cr.:	13---	Raw Material and Supplies
	27000	Accounts Passable Deferred

To record inventory adjustment of shortage of Raw Materials and Supplies (contra entry if overage; copy of the Journal Entry shall be sent to the Washington Office). The Accounts Payable Deferred Account is used for recognized shortages in Bailment Property Inventory. This entry is also used for the write-off of damaged or obsolete inventory items.

Source: Summary of physical inventory sheets.

NOTE: On direct material adjustments, in addition to JE 26A, JE 26 will be necessary to charge the adjustment to Finished Goods or Cost of Sales, depending on whether the item has been cleared to Finished Goods or sold.

(a) - Charge to Other Expense shall be accomplished after approval of the Resources Division.

JOURNAL ENTRY 26B

Dr.:	ACCT	
	6132-	Production Expense/Damaged/Obsolete Property
Assets	6532-	Other Expense/Damaged/Obsolete Property-Fixed
Cr.:	13050	Allowance for Obsolete RM&S Inventory
	15040	Allowance for Obsolete Finished Goods Inventory
	16013	Allowance for Obsolete M&E Inventory

To record Central Office-directed allowances for damaged/obsolete property items (Inventory and Machinery and Equipment) on hand.

Source: Memorandum from the Central Office based upon physical inventory submissions to the Central Office or other documentation identifying obsolete property.

NOTE: Copy of the Journal Entry shall be sent to the Washington Office.

JOURNAL ENTRY 26C

	ACCT	
Dr.:	12030	Public Billings
	13050	Allowance for Obsolete PM&S Inventory
	15040	Allowance for Obsolete FG Inventory
	16013	Allowance for Obsolete M&E Inventory
	16020	Accumulated Depreciation M&E Inventory
	53020	Inventory Overages/Shortages
	65---*	Other Expense
Cr.:	13---	Raw Material and Supplies
	15010	Finished Goods Manufactured
	15020	Outside Purchases
	1601-	Machinery and Equipment
	6132	Production Expense/Damaged/Obsolete Property (see note below)
	6532-	Other Expense/Damaged/Obsolete Property

To record the disposal of property for which an allowance for obsolescence has been established. Disposition procedures include Board of Survey directed disposition as surplus property, sale as scrap, or use in production at reduced values.

Source: Disposal documentation such as shipping orders, invoices, and reports of Board of Survey.

NOTE: May be a debit entry dependent upon applicable allowance for damage/obsolescence.

* - Subsidiary account required.

JOURNAL ENTRY 26D

Dr.: ACCT
 54000 Abnormal Costs

Cr.: 13020 Shopstock

To record monthly inventory shortage of shopstock used in process cost system.

Source: Monthly physical inventory.

JOURNAL ENTRY 27

Dr.:	ACCT	
	16020	Accumulated Depreciation, M&E Inventory
	16040	Accumulated Depreciation, B&I
	32---	Donated Property
Cr.:	13010	Raw Materials and Supplies
	1601-	Machinery and Equipment
	16030	Buildings and Improvements

To record property items donated to non-UNICOR activities that were originally donations to UNICOR.

Source: Board of Survey, General Ledger Accounts, and FPI Form 13.

JOURNAL ENTRY 31

	ACCT	
Dr.:	33010	WC-Prior Years Balance
	41010	Sales-Other Government Agencies
	42010	Transfer Sales
	62000	Overhead Expense Applied
	71---	Miscellaneous Sales
	72000	Recapture of Donated Property Expense
	74000	Other Income
Cr.:	33010	WC-Prior Years Balance (may require a debit entry)
	41020	Returns and Allowances, Government Sales
	41030	Sales Return for Rework, Government Sales
	42020	Returns and Allowances, Transfer Sales
	42030	Sales Return for Rework, Transfer Sales
	5----	Cost of Sales
	61---*	Actual Overhead
	63---*	Selling Expense
	64---*	Pre-Industrial Training
	65---*	Other Expense
	66---*	Support Division Expense
	67---*	Product Division Expense
	68---*	Corporate Expense
	7102-	Cost of Miscellaneous Sales
	81---*	Vocational Training-Regular
	82---*	Vocational Training-Experimental
	83000	Inmate Performance Pay
	84000	Extraordinary Losses

To close nominal accounts for the fiscal year. Accounts may require a reverse entry to that shown. (A copy of this Journal Entry shall be sent to the Washington Office with the September 30 statements).

Source: Working trial balance, FPI Form 1.

* - Subsidiary account required.

JOURNAL ENTRY 32

	ACCT	
Dr.:	33020	WC-Cash Transfers
	33030	WC-Tangible Asset Transfer
	33040	WC-Transfer Billings
Cr.:	33010	WC-Prior Years Balance

(For field location use only)

To close Washington Control Accounts into Washington Control Prior Years balance. Accounts may require a reverse entry to that shown. (Copy of this Journal Entry shall be sent to the Washington Office with the September 30th statements).

Source: General Ledger Accounts

JOURNAL ENTRY 33

Dr.:	ACCT	
	160--	Construction - Prior Years (Use appropriate account)
	32020	Donated Property - Prior Years
Cr.:	160--	Construction - Current Year (Use appropriate account.)
	32010	Donated Property - Current Year

To transfer current year's balance at fiscal year end to prior year

Source: General Ledger Accounts.

JOURNAL ENTRY 40

Dr.:	ACCT 33010	WC-Prior Year Balance
Cr.:	66---*	Support Division Expense
	67---*	Product Division Expense
	68---*	Corporate Expense

To close Division and Corporate expense accounts at fiscal year end

Source: General Ledger Accounts

* - Subsidiary account required.

JOURNAL ENTRY 41

Dr.:	ACCT	
	33010	WC-Prior Years Balance
Cr.:	33020	WC-Cash Transfer
	33030	WC-Tangible Asset Transfers
	33040	WC-Transfer Billings
	34020	Cumulative Results of Operations-Current FY

(For Washington Office use only)

To close subsidiary Washington Control Accounts 33020 thru 33040 into 33010, and record field location Profit and Loss for the year into corporate Profit and Loss.

Source: Central Office General Ledger Accounts and copies of field location's JE 32.

NOTE: Accounts may require a reverse entry to that shown.

JOURNAL ENTRY 43

Dr.:	ACCT 34020	Cumulative Results of Operations-Current FY
Cr.:	34010	Cumulative Results of Operations

(For Washington Office use only)

To close Cumulative Results of Operations-Current Period, Account 34020, at fiscal year end.

Source: General Ledger Accounts

NOTE: Accounts may require a reverse entry to that shown.

JOURNAL ENTRY 44

Dr.:	ACCT 34030	Dividends Paid U.S. Treasury
Cr.:	11010	Cash-Operating

(For Washington Office use only)

To record periodic distribution to the U.S. Treasury.

Source: Board of Directors Corporate minutes and UNICOR's
Disbursement Voucher.

SECTION 8503

INTERNAL CONTROL

INDEX

<u>SUBJECT</u>	<u>PAGE</u>
100. INTRODUCTION	1
101. DEFINITION	1
102. COMMON CONTROL TECHNIQUES	2
1. Documentation	2
2. Segregation of Duties	2
3. Qualified Continuous Supervision	2
4. Competent Personnel	2
5. Planning	3
6. Preservation and Safekeeping of Property and Records	3
7. Systematized Financial and Cost Accounting	3
8. Financial and Cost Repairs	4
9. Quality Assurance	4
10. Internal Audit and Management Review Programs	4
103. UNICOR INTERNAL CONTROL SYSTEM	4
1. Document Control	4
2. Segregation of Duties	4
3. Classification of Transactions	5
4. Journal Entries	5
5. Reconciliation of Subsidiary Records	5
6. Undistributed Expenses	6
7. Financial and Cost Statements	6
8. Estimates or Standard Cost Comparisons	6
104. SPECIFIC CONTROL REQUIREMENTS	7
1. Cash Receipts	7
2. Cash Disbursements	7
3. Accounts Receivable	7
4. Capital Assets and Material Inventories	8
5. Payables	9
6. Finished Goods	9
7. Procurement-Purchase Orders	10
8. Contract Procurement	11
9. Payroll	11
10. Travel	12
105. RESPONSIBILITIES	12
106. AUDIT PROGRAM	12
1. External Audits	12
2. Internal Audits	13
3. Operating Management's Review Program	13

INTERNAL CONTROL

100. INTRODUCTION

The Budget and Accounting Act of 1950 places responsibility for establishing and maintaining adequate systems of internal control upon the head of each executive agency. It also prescribes that accounting systems conform to the accounting principles, standards, and related requirements prescribed by the Comptroller General of the United States and that the systems be approved by him. Those principles, standards, and related requirements include criteria for effective internal control systems. The Financial Integrity Act of 1980 specifies that the head of each executive agency designated by the Office of Management and Budget will be required to submit annually, to the President, a report on the adequacy of their agency's system of internal accounting and administrative controls. The Act requires a report on those controls which are designed to provide reasonable assurance that the following control objectives are achieved:

1. All obligations and costs were in compliance with applicable law;
2. All funds, property and other assets were safeguarded against waste, loss, unauthorized use or misappropriation and were properly accounted for; and
3. All revenues and expenditures applicable to agency operations were properly recorded in appropriate accounts and summarized to permit the preparation of reliable financial and statistical reports.

UNICOR internal control systems will be designed to be responsive to the requirements of the Budget and Accounting Act of 1950 and the Financial Integrity Act of 1980.

101. DEFINITION

The system of internal control in UNICOR is considered as supportive to management in its larger effort of achieving UNICOR goals and objectives. The system consists of all methods used for the purpose of (1) encouraging and measuring compliance with UNICOR policy, (2) safeguarding assets against waste, fraud and mismanagement, (3) promoting accuracy, reliability and timeliness of accounting and operational data, and (4) judging the efficiency of operations in all areas of the Corporation. As indicated by the definition, the internal control system is more than a method for the prevention of fraud or the detection of accounting errors. The scope of the internal control system extends beyond accounting and financial functions and includes all Corporate operations including production, warehousing, shipping, quality assurances, and various training programs.

102. COMMON CONTROL TECHNIQUES

The following control techniques are common to any effective internal control system and must be apart of all UNICOR internal control systems:

1. Documentation. Internal control procedures, policies, authorities and responsibilities must be clearly and adequately documented. Once documented they should be available to personnel involved in their execution. Documentation usually takes the form of operations manuals and organization charts which describe and depict the role and responsibilities of all individuals engaged in the control system. Not only does proper documentation provide assurance that the method of, and responsibility for, following procedures is clearly communicated it is often a valuable tool in training new employees. Effective documentation must include a process for incorporating system changes and communication of those changes to user personnel. That process must include management approval of all system changes.

2. Segregation of Duties. Segregation of duties is accomplished through well-documented and communicated organizational structures. Clearly established lines of authority and responsibilities should be provided for each operating activity (UNICOR corporate, division and field location program/entity). Position descriptions must be designed to clearly define those authorities and responsibilities. Assigned authorities and responsibilities should include requirements for compliance with UNICOR regulations and policies and should establish the basic requirements for acceptable performance. The planned process for evaluating the quality of performance should be effectively described in those position descriptions.

In order to provide an effective internal control system, the organizational structure must be designed to keep personnel from taking advantage of their assigned responsibilities and authority. No individual or small group of individuals should be in a position to control all aspects of a transaction. Responsibilities should be segregated and tasks so structured that one individual or group of individuals does not perform more than one "key" processing function or activity such as authorizing, approving, certifying, accounting, or disbursing. This involvement of various knowledgeable individuals in the processing of transactions is essential to assure the integrity and reliability of that process.

3. Qualified Continuous Supervision. Qualified and continuous supervision is essential to an effective system of internal accounting and administrative control. Strict adherence to established procedures is necessary to assure agency management that desired internal control procedures are being applied to safeguard the resources of the agency.

4. Competent Personnel. Personnel should be competent by education, training and experience, to execute the control responsibility to which they are assigned. Unless personnel are technically qualified to execute the responsibilities of the positions they hold, agency heads cannot expect the effective execution of control policies and procedures. (See Sections 8050 and 8051 "Staff Development, UNICOR" AND "UNICOR Training Program")

respectively.)

5. Planning. An agency's planning process should provide an effective internal control element. Well-defined goals and objectives establish the parameters within which agency personnel must operate and include clearly identifiable and measurable performance expectations for evaluation purposes. In addition, cash projections, inventory stock level requirements, facility and personnel projections, and sales order planning to provide a basis for evaluating the effectiveness of internal controls in those areas. It is essential that plans effectively challenge operating personnel without being unrealistic or unreasonable. The planning process must include requirements for management review and evaluation of accomplishments in relation to expectations. Such analytical reviews should lead to recommendations for corrective action and follow-up to assure responsiveness and to prevent recurrence of any noted deficiencies. (See Section 8030 "FPI Corporate Planning".)

6. Preservation and Safekeeping of Property and Records. Policies and procedures must be developed and implemented to prevent theft and loss or misuse of Government property and records. Generally, procedures should include physical security of accounting records, negotiable instruments or securities, and other assets of the agency. Accordingly, procedures should be employed to ensure that appropriate recordkeeping and adequate retention procedures exist and are followed.

7. Systemized Financial and Cost Accounting. Effective financial and cost accounting systems design includes requirements for adequate control over assets, liabilities, revenues, costs and expenses. The design must be predicated upon accrual basis accounting with revenues, costs and expenses charged to periods of usage, such as the cost of capital assets allocated to periods in which their use produces revenues. UNICOR planning must be so devised that actual operating results can be measured against predetermined expectations. Analysis and evaluation of resultant deviations may disclose breakdowns within the internal control system. Such deviations must be investigated and breakdowns corrected as necessary in a timely fashion. Effective managerial reactions are dependent upon sophisticated development of meaningful and realistic expectations.

Properly completed forms, reports and analysis of the cost accounting system provide an additional internal control feature in that operating results are further summarized by specific jobs or processes. Pre-determined standards are established for each job or process and must be subsequently compared with actual costs upon completion. Such comparisons will disclose variances. Analysis and evaluation of significant variances should identify the causes of any breakdown in internal controls. Cost accounting provides the detailed information for this purpose. Corrective action can then be taken to prevent recurrence. (See Section 8506 "Costs"). Well defined audit trails are an essential to good systems design. Entries for all transactions should be traceable from originating document to financial report data. Similarly, total amounts in financial reports should be traceable back through the General Ledger accounts and books of original entry to source documents.

8. Financial and Cost Reports. Periodic financial and cost reports should provide supervisors and operating managers with data that can be used to evaluate the internal control system. The dollar amounts in cost variance accounts are indicators of the degree of breakdown in planning, assembly of costs or management efficiency. Inventory write-offs provide indicators of the degree of breakdown in inventory controls. Accuracy is essential in all these reports, and top management officials must assure that the data received can be and is used to evaluate the internal control system. Management officials should periodically review report format design to assure that reports meet management needs and obsolete reports are eliminated. (See Section 8540, Reports, Forms and Records, for specific UNICOR reports and their proposed usage.)

9. Quality Assurance. Quality Assurance programs should be designed to identify deficiencies in materials received or deficiencies occurring in the production process. Appropriate recommendations should be made for correcting production deficiencies and preventing their recurrence. Faulty materials from suppliers should be rejected and returned promptly. Each location superintendent must establish an effective quality assurance program and continually review its operational effectiveness as prescribed by UNICOR. (See Section 8340 "Quality Assurance Program, UNICOR")

10. Internal Audit and Management Review Programs. Continuous monitoring of policies, procedures and practices related to production, fiscal and accounting activities through internal audit and management reviews is essential to an effective internal control system. Where appropriate, reviews should include examining and testing of transactions. Follow-up procedures should exist to assure compliance with audit and management review recommendations. Timely corrective action is essential to an effective internal control system. (See paragraph 106 for UNICOR's specific requirements.)

103. UNICOR INTERNAL CONTROL SYSTEM

UNICOR's system of internal control is designed to include the common control techniques noted above. Since UNICOR industrial activities are so varied, each location must devise its own system of internal control incorporating to the extent possible the following common control technique:

1. Document Control. An effective internal control system must include effective procedures for document control throughout the origination development, approval, review and recording process. Document control includes accuracy of figures, prevention of oversights and an assurance of propriety of all actions being taken. The principle of double check of all work accomplishments shall be used to the fullest extent possible.

2. Segregation of Duties. Organizational structures must be designed so that no individual is in a position to control all aspects of a transaction. For example:

- a. Accounts receivable clerks should not be involved in the receipt of cash items.
- b. Procurement personnel should not be involved in the disbursement or receiving process.
- c. Production personnel should not be participates in inventory storage or issue activity.
- d. Receiving clerk activities should be separated from the procurement function, stock control recordkeeping and receipt of supplier invoices.
- e. Accounts receivable clerks should not have an authority to write-off accounts receivable.
- f. Stock record clerks should not have an authority to adjust inventory records without supervisor approved documentation.
- g. Physical inventories should not be taken by personnel who are immediately responsible for physical or recordkeeping control of the inventory. However, knowledgeable personnel may be used when necessary to asset in the identification of inventory items.
- h. Inmate to inmate handling of accounting documents should be avoided if at all possible.

Segregation of duties among available personnel is designed to provide integrity and reliability of results in the processing of UNICOR transactions.

3. Classification of Transactions. Classification of transactions as to accounting code and object class shall be annotated on all procurement documents in accordance with an established chart of accounts. Annotations are made by the originator of the transaction. Such annotations are then reviewed and verified by accounting personnel. The established chart of accounts must be designed to meet management needs for information and be well-communicated among operational personnel to assure consistency in the classification of transactions. (See Section 8501 "Chart of Accounts").

4. Journal Entries. Standard and special journal entries are drawn by location accountants subject to Business Manager approval to assure that the action being taken is proper and necessary. (See Section 8502 "Journal Entries").

5. Reconciliation of Subsidiary Records. A process of periodic reconciliation of subsidiary or other support records with control accounts or financial records must be included as part of UNICOR's internal control system. The following are examples of the type of reconciliations that should be made:

a. An accountant shall be responsible for monthly reconciliation of cash and SIBAC transactions in the general ledger with the monthly Standard Form 224 (Statement of Transactions).

b. Location accountant shall make postings to accounts in the general ledger, after a double check of amounts against two or more sources, if possible. Example: cash collections would come from adding machine lists of checks received, total of Register of Remittances Received and total of credits to accounts receivable. Similar checks would be made for the SIBAC system which utilizes funds transfer instead of cash.

c. The accounting technician responsible for maintaining the stock record cards shall verify inventory balances by comparison of stock card balances with balances shown on requisitions. Balances of stock record cards should be totalled and reconciled monthly with the General Ledger accounts. (See section 8509 "Inventory").

d. The location accountant must assure that all General Ledger accounts are reconciled each month by adding machine tapes of subsidiary record open items or documents.

6. Undistributed Expenses. Procedures must be established for the accumulation of temporarily undistributed expenditures and a process developed for timely and fair distribution of those expenditures to appropriate programs, functions or activities. For example, the Superintendents salary rarely can be assigned to a specific job or process. Therefore, that salary along with other items is initially recorded as an undistributed expense. Accumulated totals of such expenditures are then distributed monthly on a predetermined allocation formula to operating activities. (See UNICOR cost accounting manual paragraph #605).

7. Financial and Cost Statements. Accurate and meaningful financial and cost statements and reports must be periodically supplied and be responsive to management needs. All reports and financial statements shall be examined, and initialed by an accountant and signed by both the Superintendent of Industries and the Business Manager, or the person(s) acting in their place. All reports are to be taped after typing. Requirements must be established for effective use of these statements and reports and UNICOR supervisors must assure that such requirements are complied with. (See Section 8540 "Reports, Forms and Records").

8. Estimates or Standard Cost Comparisons. UNICOR managers must make timely and periodic comparisons of estimates or standard costs with actual expenditures to identify variances, analyze and evaluate those variances for internal control breakdowns, identify the causes of those breakdowns and recommend and implement corrective action as appropriate follow-up on recommended corrective action must be a part of each UNICOR location's internal control systems.

104. SPECIFIC CONTROL REQUIREMENTS

The following represent specific control requirements for identified segments of accounting and procurement activity:

1. Cash Receipts. Controls include requirements for safe-keeping facilities that will prevent unauthorized access to cash items and other cash control documents received or on hand. Procedures should assure that incoming mail is processed by staff members, such as the procurement officer, that are not involved with the recording or deposit of cash items. Prompt recording by accountants and deposit of cash items by the Business Manager should be assured. (See Section 8505 "Collections" for flowcharts and specific procedures).

b. Procedures should be established that assure the proper recording and documentation of all transactions involving SIBAC (Simplified Intragovernmental Billing and Collection). Business managers should assure that the SIBAC TFS Form 7306 "Paid Billing Statement for SIBAC Transactions" has been properly signed and recorded, and that all chargebacks are promptly investigated and resolved.

2. Cash Disbursements. Controls include identification of the specific documents required to support each disbursement action including the tie-in to procurement actions that led to the cash disbursement. Accounting technicians should be given the responsibility of assembling these documents and preparing voucher schedules for payment. Accountants should review and approve voucher schedules and support documents for accuracy, adequacy of document support and propriety of payment. Certifying officers are responsible for final review of all vouchers prior to certification. UNICOR will not adopt a statistical sampling method of review due to the low volume of vouchers processed at each location. Post payment review of paid vouchers on a sampling basis is required of UNICOR's management and internal audit staff. (See Section 8507 "Disbursements for flowcharts and detail description of UNICOR procedures and paragraph 106 subparagraphs 2 and 3.)

3. Accounts Receivable

a. Accounting technicians must assure that all receivables are accurately and promptly recorded. Such recordings should be based upon pre-established documentary support such as shipping orders and sales invoices.

b. Accounting technicians must assure that all receipt recordings have adequate support documentation and all receipt deviations from amount set-up are satisfactorily reconciled and adjusted.

c. Accountant should provide periodic reports of aged receivables and assure that timely collection activity has been taken. Specific collection problems should be noted in the report.

d. Business Managers and Superintendents should review the aged receivables report, the collection action taken and provide recommendations for solution of noted collection problems.

e. Business Managers should process write-offs, conversions, settlements or forgiveness of receivables subject to delegated approval. (See Section 8505 "Collections").

f. Accountants must assure that all SIBAC transactions are properly recorded and documented, including charge-backs.

g. Accountants must assure that all SIBAC billings that are accomplished (paid) during a SIBAC billing cycle are clearly recorded as paid for the months business in which they are accomplished.

h. Business Manager must assure that prompt shipments are made (same day) when a SIBAC TFS Form 7306 "Paid Billing Statement for SIBAC Transactions" is used as a shipping order to avoid premature invoicing of goods not shipped.

4. Capital Assets and Materials Inventories

a. The Resources Division should provide instructions that provide a distinction between a capital asset and operating expenditures for accounting purposes. When necessary the Business Manager should obtain clarification from the Resources Division.

b. Superintendents should assure that only authorized and needed property is ordered.

c. Accountants should assure that all receipts of property are timely and accurately recorded. Such recordings should be based upon pre-established document support requirements and adequate control identification and responsibility assignment.

d. Accountants must assure that detailed subsidiary records are maintained for individual capital assets and significant categories of material inventories. These subsidiary records must be periodically reconciled to control accounts.

e. Business Managers must assure that periodic physical verification is made of the existence and condition of property and inventories with reliable (i.e., accurate, complete and timely) physical counts made by UNICOR personnel who are not involved with the recordkeeping, physical control or management of the property or inventory. The Business Manager must assure that the accounting records are adjusted to conform with the results of the physical verifications. (See Section 8508, "Fixed Assets", and Section 8509, "Inventory").

f. Superintendents must assure that physical security measures are commensurate with the size, type, and value of property.

g. Business Managers must assure that all issues, transfers, retirements, losses, and other variances are timely reported and accounted for. (See Section 8508 "Fixed Assets", and 8509 "Inventory".)

h. The warehouseman shall inspect all goods received and report the receipt on FPI Form 11 (Receiving Report). A quality assurance employee shall be responsible for formal inspection of the goods received noting his findings on the FPI Form 11. A second warehouseman is responsible for putting goods received into stores and updating the bin-cards. The completed FPI Form 11 is then forwarded to a business office accountant for recording the receipt on stock record cards. (See Sections 8509 "Inventory", and 8506 "Costs").

5. Payables

a. Accountants must assure that all payables and other claims against the Government are promptly and accurately recorded. Prompt recording is based upon effective implementation of UNICOR's accrual accounting system. Liabilities are established as soon as goods or services are received whether accompanied by an invoice or not. While inmate payrolls do not become a part of the accounting records until month-end, they are considered to be encumbrances if all amounts owing whether paid or not are recorded at that time. Similarly, utility bills, civilian payroll accruals compensation, etc. are limited to month-end recording to facilitate the recording process while assuring that all existent payables are recorded for financial statement presentation purposes.

b. Accounting technicians must assure that recorded payables have necessary document support such as requests for purchases, purchase orders, receiving reports and invoices.

c. Accounting technicians must assure that all payables are promptly liquidated assuring that cash discounts terms are met and discounts taken or justification for not taking discounts is effectively notated on payable documents. (See Section 8507 "Disbursements").

6. Finished Goods.

a. A quality assurance employee shall inspect goods produced in accordance with local requirements and annotate the results of that inspection on an appropriate form prepared by the factory manager. The storekeeper or shipping supervisor shall receive and verify the production report when items completed and inspected are placed into finished goods. The form is then forwarded to the Business Office and the accounting technician records the addition to finished goods on an appropriate stock card.

b. Factory Managers have a primary responsibility in the control of finished goods. Their production reports must be promptly compiled and forwarded to the Business Office to transfer completed work to finished goods inventory via a Delivery Tag (FPI Form 65) or a similar document that can be effectively controlled. Generally the Factory Manager is responsible for directing that a shipping order be prepared. That advise frequently accompanies the completed production report. However, there are instances where the Factory Manager is not in a position to advise as to when a shipment should be made such as when items are produced for stock or the contract with the customer requires that shipments be made in large quantities. In those instances the responsibility for directing that a shipment be made must be place on a location employee who is knowledgeable as to when shipments should be made, for example the Business Manager or Shipping Supervisor.

c. Shipping Orders (FPI Form 8) are compiled by an accounting technician and submitted for approval to the Business Manager. After approval by the Business Manager, Shipping Orders are forwarded to the shipping supervisor for actual shipment of that order.

d. Products must be properly packed to avoid shipping damage. Instruction labels should be attached advising the need for prompt inspection, handling of noted damage or product defects and identifications of unit responsible for payment.

e. Completed Shipping Orders are forwarded by the shipping supervisor or storekeeper to an accounting technician for recording in the Shipping Orders Register (FPI Form 7) and preparation of the customer invoice. The accounting technician tapes all invoices turned over to the accounts receivable clerk and retains those tapes for Business manager evaluation of Collection Bill Register (FPI Form 35) recordings of all items shipped.

f. Shipping supervisor must assure the prompt shipment (same day) of goods when SIBAC TFS Form 7306 is used as a shipping order to avoid premature invoicing for goods not shipped.

7. Procurement - Purchase Orders

a. Superintendents must assure that authority and limitations in the procurement process are identified and consistently followed.

b. Business Managers and procurement officers must assure that UNICOR procurement policies for initiating procurement action, screening, approval and authorization requirements, leadtime, follow-up, cross referencing, and documentation of action taken are strictly adhered to.

c. Procurement officers must maintain procurement source files and assure that they are effectively used.

d. Superintendents must assure that GSA stock items are procured to the maximum extent practicable, and that charge accounts and sole supplier usage conforms with procedural requirements. (See Section 8530 "Procurement" for specific requirements).

e. Pre-assigned and documented control numbers for contract procurements shall be assigned by the procurement officer. The assigned number for each contract procurement is designed to provide a control for all procurement, invoicing and receiving activity related to that procurement action. (See Section 8530 "Procurement").

8. Contract Procurement.

a. Superintendents must assure that their recommendations for contracting officers relate to personnel with knowledge and experience in procurement matters. Such recommendations must be transmitted to the Controller in the Resources Division for review and formal delegation of authority. Under no circumstances should a certifying officer be allowed to serve as a contracting officer.

b. Contracting officers must assure that a reasonable number of responsible bidders are solicited for each significant procurement action, thereby, providing for adequacy of competition.

c. Contracting officers must assure objective evaluation of all bids and proposals, strict compliance with contract award procedures and consistent application of administrative controls.

d. Contract monitors must assure compliance with contract terms including control over Government-furnished property and equipment to ensure that contractors are safeguarding, accounting, inventorying, preserving, maintaining, and reporting accurately the Government properties in their possession.

e. Procurement officers are responsible for prompt and appropriate contract close-out actions and coordinating such action with factory accountants.

f. Procurement officers must maintain well-documented and descriptive contract files with those being readily accessible for review and evaluation. (See Section 8530 "Procurement" for specific requirements).

9. PAYROLL

a. Superintendents must have the authority to recommend appointments, changes or termination of factory personnel including inmate laborers. Requirements should be established for the documentation required to support recommendations for personnel actions.

b. Business Managers must assure that all compensations of employees complies with current statutory, regulatory or agency limitations.

c. Department foremen, Business Managers and timekeepers must assure timely, accurate and complete attendance reporting. (See Section 8511 "Payroll" for specific control procedures).

d. Upon completion of the payroll process, the Superintendent or Acting Superintendent will sign the FPI Form 41 and 41b. This task may not be delegated.

10. Travel.

a. An accountant's review of travel vouchers and certification of travel vouchers by certifying officers must be designed to assure compliance with the Standard Government Travel Regulations. Permanent change of duty station vouchers are subject to Bureau of Prisons verification; however, UNICOR Business Managers are responsible for compilation accuracy prior to certification.

b. Business Managers must assure that controls are established and observed for issuing, recording, verifying, processing, reconciling, accounting and reporting obligations, expenditures, and disbursements for travel and transportation. (See Section 8513 "Travel and Transportation").

105. RESPONSIBILITIES, COORDINATION AND INTERNAL CONTROLS.

Corporate, division and site location management have a responsibility to provide an effective internal control system. Business Managers must assure that the internal control system functions effectively in financial areas. Records and procedures must be reviewed periodically for accuracy and for compliance with UNICOR guidelines. Factory Managers must assure that accurate and reliable operating data is reported on a timely basis and that factory personnel effectively implement all internal control features related to factory operations. The Superintendent of Industries is responsible for internal controls overall, and for coordination between the factories and the Business Office to insure timeliness of data flow and communications.

106. AUDIT PROGRAM

It is the policy of UNICOR to maintain a Corporate audit program that provides management at all levels with information to aid in achieving efficient administration and control of operations. The audit program is concerned with all phases of financial, operational and program activities rather than being limited to financial matters. Detail information as to the various audit activities related to UNICOR are explained in Section 8519 of this manual. A brief commentary concerning audit activity as related to internal control follows:

1. External Audits.

a. GAO. The Comptroller General of the United States performs reviews of overall corporate activity in order to certify UNICOR's financial statement. These reviews are directed in part to the adequacy

of internal controls. Their appraisal and associated recommendations provide meaningful contributions to the process of maintaining an effective internal control system.

b. Department of Justice. The Audit Staff of the Department of Justice coordinates its audit activity with those of UNICOR's internal audit section so that a field location is not subject to an internal and an external audit in the same fiscal year. DOJ auditors strive to audit each field location every three years and Product Divisions periodically but not on a cyclical basis.

2. Internal Audits. UNICOR's Internal Audit Staff or Contract Auditors audit each location on a cyclical basis and concentrate their review on financial areas. Product Division office activities are reviewed to the extent that time can be made available. However, an audit of each Division's activity once every three years is established as an Internal Audit Staff goal. Program area reviews are accomplished to the extent that time can be made available. Related internal controls are reviewed as a part of each audit program step whether the review is of a financial or program nature.

3. Operating Management's Review Program. Operating management has a responsibility to continually review its areas of responsibility to assure compliance with UNICOR operating procedures. They will evaluate the efficiency and effectiveness of operations in meeting stated goals and objectives, and assure the validity and meaningfulness of financial and production reports. Review of program activities Field, Division or Corporate includes an evaluation of all personnel accomplishment.

107. EVALUATION AND IMPROVEMENT OF INTERNAL CONTROL SYSTEMS

OMB Circular No. A-123, "Internal Control Systems," sets standards for internal controls and directs each agency to review and update its internal control system on an ongoing basis. Congress requires the head of each agency to report to the President annually on these controls. Therefore, Corporate management must methodically assess its vulnerability to fraud, waste and abuse in each program and administrative area within each organizational component, identify the controls deemed most vulnerable and assure that such controls are effectively meeting their desired function. OMB has published applicable guidelines for control elements that must be included in any Governmental Accounting system.

Specific indications of improprieties or allegations within UNICOR are referred to the Office of Inspection, Bureau of Prisons, for investigation. Such information should be relayed to that office with any evidence of waste, fraud or abuse duly noted and made available.

SECTION 8504

INVOICING

INDEX

<u>SUBJECT</u>	<u>PAGE</u>
100. GENERAL	1
101. ASSIGNMENT OF INVOICE NUMBERS	1
102. SHIPPING ORDER AND COST OF SALES REGISTER	2
103. INVOICING FORMS	5
1. FPI Form 55, Invoice	5
2. FPI Form 55b, Memorandum Invoice of Shipment	6
3. DD FORM 250, Materials Inspection Receiving Report	6
4. TFS Form 7306, OPAC Invoice	10
* 5. Transportation Billed to Customer	12*
104. INVOICE ASSEMBLY AND MAILING INSTRUCTIONS	13
105. CORRECTION OF INVOICES - CREDIT MEMORANDUM	13
1. Use	13
2. Required Form for Credit Memorandums	14
3. Required Information	14
4. Procedure	14
5. Procedure When the Customer Fails to Pay the Full Amount of the Invoice	14
6. Customer Demands Cash Refund for the Amount Which They Overpaid	15
7. Approval	15
8. Approval under the OPAC System	16
9. Defective Goods Returned by Customer	17
106. COLLECTION BILL REGISTER	17
107. MAINTAINING THE COLLECTION BILL REGISTER	17
1. 12010 Accounts Receivable- Gov.- Cash Billings	18
2. 12010 Accounts Receivable- Gov.- SIBAC Billings	18
3. 12020 Travel Advances	18
4. 12030 Accounts Receivable- Public	18
5. 12040 Accounts Receivable- Unbilled Receivables, Current	18
6. 12050 Accounts Receivable- Non-Current	19

ILLUSTRATIONS

<u>Illustration Number</u>	<u>Title</u>	<u>Page</u>
1	Shipping Order and Cost of Sales Register	3
2	Process Flow for FPI Form 55 (Invoice)	4
3	Process Flow for General Use of the FPI Form 55b	7
4	Process Flow for DD Form 250	8
*		*

INVOICING

100. GENERAL

Invoicing is the process whereby a customer is billed and an account receivable is established in the General Ledger as a result of goods having been shipped or services rendered to that customer as ordered. The objectives of the invoicing process are:

1. To bill customers for goods and/or that have been shipped or supplied.
2. To assure that amounts billed are correct.
3. To record accounts receivable in a timely fashion.
4. To establish effective controls that will facilitate the collection process.

The invoicing form to be used is dependent upon the circumstances of the customer's order. (See paragraph 103 on invoicing forms for specific details.)

101. ASSIGNMENT OF INVOICE NUMBERS

Receipt of a completed Shipping Order, FPI Form 8, and Government Bills of Lading (GBL) in the accounting office initiates the invoicing process, except when the OPAC invoice TFS Form 7306 is used as a shipping order. In this instance, notification of an impending shipment of an OPAC order will start the invoice process. Items mailed do not require a GBL. The Business Manager, or a delegate, is responsible for the assignment of all invoice numbers. The invoice numbers will be in numerical sequence beginning with number 1 each fiscal year.

1. Invoice numbers for FPI Forms 55-Invoice, and 55b-Memo Invoice, D250-DOD Invoice, TFS 7306, OPAC invoices and credit memos will be assigned in the following manner:

- a. The first part of the number will be the last digit of the fiscal year.
- b. The second part of the invoice number will be the location Disbursing Office (DO) symbol assigned by the

Department of the Treasury. The DO symbol is included as an audit trail on the TFS Form 6652, Statement of Differences, as well as other Treasury generated forms (see Section 8501, Chart of Accounts and Accounting Classification Codes, Page 8501-ii).

c. The third part in the invoice number will be an assigned numerical number.

d. The last part in the invoice number will be the alpha notation for the factory for which the invoice was processed. The alpha notation can not be entered on the TFS Form 7306 on the APECS terminal, but, will be automatically printed on the OPAC billing.

An example of a properly prepared invoice number in the 1989 fiscal year for the Terre Haute Cut and Sew Factory would be:

9 - 51 - 0001 - CS
(a) (b) (c) (d)

2. A separate series of invoice numbers will be established by the Business Manager for the processing of FPI Form 5, Inter-Industry Transfer Voucher. The same procedure for assignment of numbers will apply to the FPI Form 5 with one exception, the invoice number for a FPI Form 5 will have the suffix "T" (transfer) after the factory alpha notation.

An example of a properly assigned FPI Form 5 invoice number for the Terre Haute Cut & Sew Factory would be:

9 - 51 - 9 - CS-T
(a) (b) (c) (d)

102. SHIPPING ORDER AND COST OF SALES REGISTER

1. When finished goods are ready to be shipped to the customer as specified in the contract, the Factory Manager will request that a FPI Form 8, Shipping Order (S.O.), and a Government Bill of Lading be initiated in the Business Office and forwarded to the shipping office. (GBL's are not used for mailed items.) After the shipment is made, the Warehouse Foreman will forward the accounting copies of the two documents to the Business Office to initiate either the invoice process or the inter-industry transfer process. When the OPAC TFS Form 7306 is used as a shipping order, the invoice process has already been completed. The GBL and S.O. will be signed by the carrier unless mailed, then the warehouseman will sign the S.O.

2. The accountant shall take the information from the shipping order and post it to the Shipping Order and Cost of Sales Register (see Illustration 1). See Section 8540, Instructions for Reports, Forms and Records, for preparation instructions. At month-end the individual columns shall be separately tabulated to provide totals for journal entries to post cost of sales. The total for cost of sales shall be entered thru Journal Entry 19 debiting Cost of Sales (Account 51000 or 52000) and crediting Finished Goods (15xxx).

3. The responsibility in 1 and 2 above may be delegated in writing to others by the AW(I&E)/SOI. This written delegation should be maintained with the GBL's.

ILLUSTRATION 1

Shipping Order and Cost of Sales Register

INDUSTRY

Shipping Order and cost of Sales Register

Month Of

Sheet No.

[illegible]

Illustration 2
Process Flow for FPI Form 55 (Invoice)

INVOICING

100. GENERAL

Invoicing is the process whereby a customer is billed and an account receivable is established in the General Ledger as a result of goods having been shipped or services rendered to that customer as order. The objectives of the invoicing process are:

1. To bill customers for goods and/or that have been shipped or supplied.
2. To assure that amounts billed are correct.
3. To record accounts receivable in a timely fashion.
4. To establish effective controls that will facilitate the collection process.

the invoicing form to be used is dependent upon the circumstances of the customer's order. (See paragraph 103 on invoicing forms for specific details.)

101. ASSIGNMENT OF INVOICE NUMBERS

Receipt of a completed Shipping Order, FPI Form 8, and Government Bills of Lading (GBL) in the accounting office initiates the invoicing process, except when the OPAC invoice TFS Form 7306 is used as a shipping order. In this instance, notification of an impending shipment of an OPAC order will start the invoice process. Items mailed do not require a GBL. The Business Manager, or a delegate, is responsible for the assignment of all invoiced numbers. The invoice numbers will be in numerical sequence beginning with number 1 each fiscal year.

1. Invoice numbers from FPI Forms 55-Invoice, and 55b-Memo Invoice, D250-DOD Invoice, TFS 7306, OPAC invoices and credit memos will be assigned in the following manner:
 - a. The first part of the number will be the last digit of the fiscal year.
 - b. The second part of the invoice number will be the location Disbursing Office (DO) symbol assigned by the Department of the Treasury. The DO symbol is included as an audit trail on the TFS Form 6652, Statement of Differences, as well as other Treasury generated forms (see Section 8501, Chart of Accounts and Accounting Classification Codes, Page 8501-ii).

c. The third part in the invoice number will be an assigned numerical number.

d. The last part in the invoice number will be the alpha notation for the factory for which the invoice was processed. The alpha notation can not be entered on the TFS Form 7306 on the APECS terminal, but will be automatically printed on the OPAC billing.

An example of a properly prepared invoice number in the 1989 fiscal year for the Terre Haute Cut and Sew Factory would be:

9 - 51 - 0001 - CS
(a) (b) (c) (d)

2. A separate series of invoice numbers will be established by the Business Manager for the processing of FPI Form 5, Inter-Industry Transfer Voucher. The same procedure for assignment of numbers will apply to the FPI Form 5 with one exception, the invoice number for a FPI Form 5 will have the suffix "T" (transfer) after the factory alpha notation.

An example of a properly assigned FPI Form 5 invoice number for the Terre Haute Cut & Sew Factory would be:

9 - 51 - 9 - CS-T
(a) (b) (c) (d)

102. SHIPPING ORDER AND COST OF SALES REGISTER

1. When finished goods are ready to be shipped to the customers as specified in the contract, the Factory Manager will request that a FPI Form 8, Shipping Order (S.O), and a Government Bill of Lading be initiated in the Business Office and forwarded to the shipping office. (GBL's are not used for mailed items.) After the shipment is made, the Warehouse Foreman will forward the accounting copies of the two documents to the Business Office to initiate either the invoice process or the inter-industry transfer process. When the OPAC TFS Form 7306 is used as a shipping order, the invoice process has already been completed. The GBL and S.O. will be signed by the carrier unless mailed, then the warehouseman will sign the S.O.

2. The accountant shall take the information from the shipping order and post it to the Shipping Order and Cost of Sales Register (see Illustration 1). See Section 8540, Instructions for Reports, Forms and Records, for preparation instructions. At month-end the individual columns shall be separately tabulated to provide totals for journal entries to post cost of sales. The total for cost of sales shall be entered thru Journal Entry 19 debiting Cost of Sales (Account 5100 or 52000) and crediting Finished Goods (15XXX).

3. The responsibility in 1 and 2 above may be delegated in writing to others by the AW(I&E)/SOI. This written delegation should be maintained with the GBL's.

Illustration 2
Process Flow for FPI Form 55 (Invoice)

103. INVOICING FORMS

1. FPI Form 55, Invoice - (See Illustration 2)

a. Usage. This form is to be used for invoicing those customers who are not billed by inter-industry transfer billings, memorandum billings, billings to the Department of Defense customers who require use of DD Form 250 (Material Inspection Receiving Report, or SIBAC/OPAC billings).

b. Required Documents to Initiate the Use of FPI-Form 55. FPI Form 55 will not be prepared by the factory accountant until the previously completed Shipping Order (FPI Form 8), and Government Bill of Lading (GBL), (if used) for goods which have been shipped. are returned to the accounting office from the shipping department. The FPI Form 8 and the GBL should be returned to the accounting office immediately after shipment. The accountant shall review shipping orders daily to determine any shipping orders that have not been returned within 48 hours of having been sent to the shipping department. The factory accountant shall make inquiries of the warehouseman to determine the reason for the delay and acceptability of the reason.

c. Preparation Procedures. Upon receipt of the signed FPI Form 8 and the GBL in the Business Office from the shipping department, the factory accountant shall record all required information on the Shipping Order and Cost of Sales Register. Once the shipping order is recorded in this register, the factory accountant will have the FPI Form 55 prepared in accordance with the instructions in Section 8540. Upon completion, the FPI Form 55 will be distributed (see below), and the invoice will be recorded in the Collection Bill Register (CBR), FPI Form 35. It is essential that all invoices are prepared with all the required information to insure they are "Proper Invoices" as described by Office of Management And Budget Circular A-125 dated August 19, 1982, which states:

"A proper invoice must include:

- 1) Name of the business concern and invoice date.
- 2) Contract number, or other authorization for delivery of property or services.
- 3) Description, price and quantity of property and services actually delivered or rendered.
- 4) Shipping and payment terms.
- 5) Other substantiating documentation or information as required by the contract."

d. Distribution of FPI Form 55.

- 1) Original - to be forwarded to the customer.
- 2) First copy - to be forwarded to the customer.
- 3) Second copy - retained as a permanent numerical file.
- 4) Third copy - retained within the business office to be used as the source document with which the factory accountant posts the information to the Collection Bill Register. See paragraph 106. This copy will be filed numerically in an open file in support of the Collection Bill Register until collected after which it may be discarded.
- 5) Fourth Copy - to be retained within the business office and filed in the appropriate work order file.
- 6) Other Copies - if required by the customer, distribute accordingly.

2. FPI Form 55b, Memorandum Invoice of Shipment

a. Usage. This three copy form is to be used for items on how no cost is charged to the consignee or when the selling price will be established later and charged to the customer. (See Illustration 3). It is also used for accountability of equipment gone for repair or additional processing.

b. Required Documents to Initiate the Use of FPI Form 55b. Same as those to initiate the FPI Form 55.

c. Preparation Procedures. Upon receipt of the signed Shipping Order and the GBL from the shipping department, the factory accountant will prepare the FPI Form 55b in triplicate. When this form is used as a memorandum of shipment to another industry location, it shall be numbered in the same series as FPI Form 5, otherwise, it will be numbered in the series with invoices on FPI Form 55. In recording memorandum billings on the Collection Bill Register (FPI Form 35), "MEMO" shall be listed in the amount column.

d. Distribution. Distribute one copy to the customer/consignee one copy for business office, and one copy for the work order file when applicable. A copy (photocopy) may be sent to the warehouse for items (i.e., repair) which may be returned.

3. DD Form 250 - Materials Inspection Receiving Report MIRR).
(See illustration 4).

Illustration 3

Process Flow for General Use of the FPI Form 55b

Illustration 4
Process Flow for DD Form 250

a. Usage. This form is to be used when a Department of Defense (DOD) customer requests its use in lieu of FPI Form 55. This form is used by DOD to combine inspection, acceptance, delivery, shipping, and invoicing all on one form. When the DD Form 250 is signed by the DOD inspector, title to the material immediately transfers to the customer.

b. Required Documents to initiate the use of DD Form 250. No initiating documents are required as the DD Form 250 combines initiating and the invoicing process into one form.

c. Preparation Procedures. Upon notification from the Factory Manager that goods ordered are completed, the factory accountant will prepare the DD Form 250 per the instructions in Section 8540. The Factory Manager or Quality Assurance Manager shall notify the Business Manager once goods are inspected by the DOD representative and he/she has signed the approval space of the DD Form 250. If the DD Form 250 is signed toward the end of the month, but shipment does not take place until the following month, the sale and cost of sales should be recorded in the month the DD form 250 is signed. The signed DD Form 250 will be forwarded to the shipping department to ship the required goods. Immediately after shipment the DD Form 250 will be returned to the factory accountant who will verify that the appropriate information has been posted in the Collection Bill Register and in the Shipping Order and Cost of Sales Register, and distribute the DD Form 250 accordingly.

An exception to the DD250 procedure above, occurs under the requirements of "Destination Acceptance" contracts. Destination Acceptance contracts require DOD quality inspection/testing at the destination point, rather than at the shipping point. Under the terms of these contracts the DOD inspector will have a specified period of time (e.g., 30 or 60 days) in which to test and accept or reject a shipment. Once the shipment is accepted, written confirmation of acceptance is sent to the shipping/billing location and title to the goods transfers to DOD. Shipments of goods under Destination Acceptance contracts, therefore will not require the signature of a DOD inspector.

It is UNICOR's policy to record the sales when goods are shipped from the warehouse under Destination Acceptance contracts. The assumption to this policy is that UNICOR sells and ships quality products which are in accordance with contract specifications and that UNICOR's general policy is customer satisfaction, and thus acceptance is guaranteed. Use Account 12070, Destination Acceptance, to record the sale of goods under these contracts.

d. Distribution. The distribution shall be in accordance with customer instructions. Internal distribution shall be the same as the FPI Form 55.

4. TFS Form 7306, "Paid Billing Statement for OPAC Transactions," OPAC invoice.

a. Usage. this form is used when payment for goods or services will be made by a government agency through the OPAC program. This form can also be used in lieu of the FPI Form 8, Shipping Order, and can be used as a packing list. A summary of all OPAC billings made on this form during an OPAC cycle will be used in the preparation of the S.F. 244, (See Treasury Fiscal Requirements Manual for Guidance of Department and Agencies, Chapter 10,000).

b. Required Documents to Initiate the Use of TFS Form 7306.

1) When the TFS Forms 7306 is not used as a shipping order, the requirements for its use are the same as those for the FPI Form 55, Invoice.

2) When this form is used as a shipping order in lieu of the FPI Form 8, notification by the responsible shipping personnel that an order will be shipped that day to a SIBAC customer will be sufficient for the Business Office to initiate a SIBAC billing.

c. Preparation Procedures. The TFS Form 7306 will be prepared by the Business Office on the APECS terminal using the APECS transaction codes for OPAC. This form will be prepared in accordance with the instructions in the APECS Operations Manual and the Treasury Fiscal Requirements Manual (TFRM) for Guidance of Departments and Agencies, Chapter 10,000.

Upon completion of the data entry into APECS, the factory accountant will verify the accuracy of the information and print the TFS Form 7306 with the APECS printer. Print as many copies as needed for distribution (see below) and record the invoice in the OPAC section of the Collection Bill Register (CBR), FPI Form 35. It is essential that all invoices contain the correct information as the transfer of funds in the OPAC system is accomplished by a direct electronic fund transfer between appropriations by Treasury without many of the controls built into a manual system, such as, matching invoices with receiving reports, purchase orders, etc. The procedure required to initiate the preparation of the TFS Form 7306 are listed below. Field offices will be notified of the cut-off date for the billing cycle each month.

1) When TFS Form 7306 is not used as a shipping order, OPAC billings will normally be prepared upon receipt of the Form 8 and GBL in the Business Office from the shipping department. However, when the terms of the contract or purchase order specify, alternate billing procedures may be used, for example, monthly billing or "upon completion of order" billing may be required. In these instances, the TFS Form 7306 will not be prepared until the terms of the contract of purchase order permits, and the use of account 12040, Accounts Receivable, Unbilled Receivables may be necessary.

2) When TFS Form 7306 is used as a shipping order in lieu of the FPI Form 8, notification from the responsible shipping personnel that an order will be shipped that day is sufficient to begin the preparation of the TFS Form 7306. An internal control procedure should be established to verify the availability of goods and transportation in this instance, since an invoice will be entered onto the OPAC computer tape for the goods when the TFS 7306 is prepared. The factory accountant will assign and record an invoice number from the OPAC CBR and a shipping order number from the Shipping Order Register prior to preparation of this form. Upon completion, the TFS Form 7306 will be distributed appropriately. The TFS Form 7306 will not be sent to the customer until the goods have been shipped.

d. Distribution of the TFS Form 7306. A Treasury TFS Form 7306 has been designed for use in the APECS printer. It consists of an original and four copies. The fourth copy has the "Amount" column black-out for use as a packing slip, if needed. An unlimited number of copies of the invoice can be printed when the data is initially entered into the system. Distribution of the FTS Form 7306 is as follows:

- 1) Original - to be forwarded to the customer.
- 2) First copy - to be forwarded to the customer.
- 3) Second copy - to be forwarded to the customer.
- 4) Third copy - retain within the business office to be used as a source document which the factory accountant will file in support of the OPAC section of the Collection Bill Register until accomplished, after which it may be discarded.
- 5) Fourth copy - designed as a packing slip, if needed.
- 6) A copy - retained in the permanent numerical invoice file.
- 7) A copy - to be retained within the business office and filed in the appropriate work order file.
- 8) Copies - retained in the numerical Shipping Order Register and sent to the shipping department when used as a shipping order.
- 9) Other copies - if required by the customer, distribute accordingly.

e. Required information on the TFS Form 7306

- 1) Customer agency billing address.
- 2) "Shipped to" address and GBL number, if appropriate.
- 3) Invoice number and Shipping Order number.
- 4) Customer ALC (8-digit Agency Location Code).
- 5) Date of Payment (the invoice date).
- 6) Customer Purchase Order or Contract number.
- 7) Description of item and amount.
- 8) OPAC agency (UNICOR location) address, commercial and FTS telephone numbers, ALC and appropriation account.

f. Adjustments. A customer agency under the OPAC system may make an adjustment on all or part of a billing within three months of receipt of an OPAC statement (TFS Form 7306). This may occur because the wrong customer was billed, the customer did not receive the entire shipment, or with dispute in charges. When an adjustment is made by a customer, they are required to contact the billing agency.

The adjustment is made through the OPAC system using an adjustment screen. The customer must enter specific information to identify the original billing which is being adjusted (i.e., document reference number, original billing ALC, etc.). The OPAC system will assure that the adjustment is valid through a series of edits on the information supplied. Once validated, the adjustment may be seen and/or printed on the next day by the original billing agency through the OPAC menu in the GOALS system.

Upon notification that an adjustment will be made, the factory accountant should immediately determine the reason. If the dispute can be settled without an adjustment, the factory accountant will take appropriate actions. If the customer does make an adjustment, a credit invoice must be made for the amount of the adjustment noting the original transactions to which it applied and was recorded in the OPAC section of the Collection Bill Register. If, however, an adjustment has already been accomplished by the customer and it is agreed that the customer is to be rebilled, a new invoice number and date must be used. If no agreement can be reached with the customer, it may be necessary to contact the Product Division for assistance. At the end of each month, in accordance with TFM 10060, "both the customer agency and the billing agency must include the NET TOTAL amount of all bills and adjustments for its ALC on its SF-224 for the current payment month."

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5. Transportation Billed to Customers. Although it is UNICOR's preference to have customers pay the freight cost on items shipped, special circumstances arise whereby UNICOR pays the freight or transportation cost and bills the customers for those

charges. Such charges should be separately identified on billing statements, such as the FPI Form 55s or Department of Defense Form 250 invoices. When recording invoices to the Collection Bill Register that include transportation charges: the total amount of the invoice should be debited to Accounts Receivable, account 120XX; Sales to Other Government Agencies, account 41010, credited for the value of the products shipped; and Transportation Cost Billed to Customers, account 63410, credited for the transportation costs via Journal Entry 22. In most situations the transportation cost to UNICOR will be an estimate. Any difference between the estimate and actual charges will be absorbed by UNICOR and will be reflected in the Transportation Cost Billed to Customers, account 63410.

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104. INVOICE ASSEMBLY AND MAILING INSTRUCTIONS

It is the responsibility of the Business Manager or a delegate to assure that all invoices mailed to the customers are fully accurate. The invoice package, mailed to the customer, will consist of the following documents:

1. The original of the invoice and as many copies as desired by the customer.
2. A copy of the shipping order.
3. Copies of any other document the customer requires.

After the Business Manager, or a delegate has fully verified the accuracy of the invoice package, the original invoice will be signed, indicating acceptance of the responsibility for its accuracy. The invoice package will then be mailed to the customer.

105. CORRECTION OF INVOICES - CREDIT MEMORANDUM

To correct an invoice prior to mailing, all copies are to be destroyed and the same invoice number on a new form. If an error has been discovered after the invoice has been sent to the customer, a "Credit Memorandum" should be issued.

1. Use. Credit memoranda are issued when:
 - a. An over billing error is discovered after the invoice is sent to the office billed.
 - b. An allowance is determined after the invoice is sent.
 - c. The customer returns defective goods.

2. Required Form for Credit Memorandums. FPI Form 55 with "Credit Memorandum" stamped boldly across the top of the form.

3. Required Information. (See Section 8540 for an example of FPI Form 55 and preparation information). The following blocks from the example in Section 8540 must be filled in when a "Credit Memorandum" is to be used:

A - Location	P - Amount Due
J - Payer	S - Signature
K - Stock No	T - Title
L - Description	U - Mail to
M - Quantity	V - Credit Memorandum
N - Unit Price	W - "To Apply"
O - Amount	X - "Shoes Returned"

4. Procedure

a. A detailed explanation of the correction of allowances is to be included, with reference to all pertinent records which created the discrepancy.

b. When the credit is to an invoice which was previously issued, the phrase "To apply to invoice No. _____, dated _____" must be included on the face of the "Credit Memorandum".

c. In all instances when a "Credit Memorandum" is issued, the following copies must be retained within the accounting office:

1) One copy to be filed in the numerical invoice file.

2) One copy to be used as support for the entry recorded in the Collection Bill Register and reverse Journal Entry 22. See paragraph 106.

3) One copy to be placed in the work order folder, if applicable.

5. Procedure When the Customer Fails to Pay the Full Amount of the Invoice. In this situation the Business Manager or delegated individual must determine if the amount not paid by the customer was a valid deduction. If it is a valid deduction, a dummy "Credit Memorandum" shall be prepared as any other "Credit Memorandum", except none of the copies are to be distributed to the customer. The "Credit Memorandum" should be annotated for internal use only and filed as stated in 105.4.c. above. In the event that the customer has deducted too much from the invoice or has no justification for deducting any amount from the invoice, the Business Manager shall send the customer a memo informing them that the invoice is still open and explain the reasons why.

When the customer fails to pay the full amount of the invoice because of an adjustment under the OPAC system, a credit memorandum is made for the amount of the adjustment and the customer is rebilled using a new invoice number and date. The credit memorandum should contain an explanation describing the reason for the adjustment and the amount to be rebilled. The customer will be contacted by telephone prior to rebilling to advise them of the impending action.

6. Customer Demanding Cash Refund for the Amount Which They Overpaid. In the event that the Business Manager notifies a customer that they have overpaid their accountant, or the customer discovers that they have overpaid, and requests a refund, the following procedures shall be followed:

a. The Business Manager must substantiate the validity of the claim. Once substantiated, the Business Manager will sign a memorandum explaining the reason for the discrepancies and that the refund is proper and valid. A copy of the customer's order and a copy of the invoice will be attached.

b. Once the above step is complete, the documents shall be forwarded to the accountant to follow the vouchering process on a FPI Form 1034 which will ultimately lead to a check being prepared to the order of the customer.

7. Approval

a. The Business Manager shall approve all "Credit Memorandums" when the "Credit Memorandum" originates due to an overbilling by the accountant. When the memorandum originated due to price adjustments on items billed at a tentative price, subject to firm commitment, disputes over contract prices, or adjustments to contract prices, the Superintendent shall be the approving officer if the amount does not exceed \$2,000. If in these circumstances the memorandum exceeds \$2,000, the Superintendent shall forward the memorandum to the appropriate Product Division Manager.

b. The Product Division Manager shall approve all other "Credit Memorandum" which are in excess of \$2,000 but \$7,500 or less. Submit the original and all copies to the division office in these cases.

c. "Credit Memorandums" which are in excess of \$7,500 shall be submitted through the appropriate division office to the Deputy Assistant Director for approval.

8. Approval of Invoice Adjustments Under the OPAC System.

a. Under the OPAC system, the customer agency has three months in which to make an adjustment to a billing and the billing agency then has 90 days to respond to the adjustment. Although customer agencies are requested to contact a billing agency prior to an adjustment (see Treasury Financial Manual, TFM 6-10000, Chapter 10000, OPAC), this is not required, so the only notification of an adjustment may be on one of the Treasury statements or through the automated OPAC system.

Once an adjustment has been made by a customer, a credit invoice must be processed and approved regardless of the validity of the claim, since an OPAC adjustment causes an automatic electronic transfer of funds. The validity of the adjustment and the appropriate action necessary must also be determined.

The Business Manager will be responsible for having the "Credit Memorandum" prepared and may sign the approval when it originates due to an overbilling by the accountant. The Superintendent shall sign all other "Credit Memorandum" which have been initiated by an OPAC adjustment. When a "Credit Memorandum" exceeds \$2,000, the Superintendent shall retain a copy of the signed "Credit Memorandum" for the numerical invoice file and the work order file and shall forward the original with remaining copies to the appropriate Product Division Manager. Included with the "Credit Memorandum" shall be an explanation detailing the reason for the adjustment, efforts made to resolve the problem, the amount, if any, to be rebilled and what assistance the Product Division can provide. A telephone call should also be made if division assistance is needed, since, there is a 90 day time limit on "responding" to adjustments.

b. The Product Division Manager shall sign an acknowledgment on any "Credit Memorandum" which is in excess of \$2,000, but \$7,500 or less. In addition, the Division Manager shall state in writing either concurrence or exception with location efforts to resolve the problem, assistance which will be provided and alternate solutions, if any, should be stated. A telephone call to the field location issuing the "Credit Memorandum" and/or the customer may be necessary, since, there is a 90 day time limit on "responding" to charge-backs.

c. "Credit Memorandums" which are in excess of \$7,500 shall be submitted through the Product Division Manager to the Deputy Assistant Director for appropriate action. Since the OPAC system has a pre-defined limit on the time allowed to respond to charged-backs (90 days) and since cash will automatically be removed from UNICOR funds when an adjustment has been made, it is imperative that "Credit Memorandum" of this nature be forwarded immediately through the proper channels to the Deputy Assistant Director.

9. Defective Goods Returned by Customer. Credit Memorandums for the full value of the defective products shall be prepared following inspection by Quality Assurance. The signed approved FPI Form 31 shall serve as the basis for issuing the credit. Accounting data may be found in Section 8506, paragraph 406.

106. COLLECTION BILL REGISTER

1. The Business Manager is charged with the overall responsibility for maintaining an accurate Collection Bill Register FPI Form 35 (see section 8540 for preparation instructions). The factory accountant is responsible for the day to day postings to this register.

2. A Collection Bill Register shall be maintained for:

- a. cash - invoices and credit memorandums, 12010,
- b. OPAC - invoices and credit memorandums, 12010,
- c. travel advances, 12020,
- d. transportation and other public billings, 12030,
- e. unbilled receivables current, 12040, and
- f. Accounts Receivable, Non-Current, 12050.

When FPI Form 55b (Memorandum Invoice) is used, list it with FPI Form 55. In listing FPI Form 55b show "MEMO" in dollar amount column. Post only the receiving report number and the date in the "date collected" column when any item is returned.

3. All invoices and related credit memoranda are to be listed by the numerical invoice number within the month that they actually occur. The recording of transactions to the month in which the transaction took place is imperative as the Collection Bill Register is balanced to accounts receivable (Account 120XX) at the end of each month.

4. Show page totals and reconcile them by a tape taken from the numerical invoice file. Pages in the Collection Bill Register will be numbered starting with number one and continue until six digits are reached. The Collection Bill Register shall serve as the permanent sales register and as the subsidiary detail of the Accounts Receivable Control Account (120XX). Post all collections to this register.

107. MAINTAINING THE COLLECTION BILL REGISTER

The Collection Bill Register will be maintained by subdividing the register into six sections, labeled as follows:

- Section 1 - "12010, Accounts Receivable - Government Cash Billings"
- Section 2 - "12010, Accounts Receivable - Government OPAC Billings"
- Section 3 - "12020, Travel Advances"

Section 4 - "12030, Accounts Receivable - Public"
Section 5 - "12040, Accounts Receivable - Unbilled
Receivables, Current"
Section 6 - "12050, Accounts Receivable, Non-current"

1. 12010 Accounts Receivable - Government - Cash Billings. All FPI Forms 55 and 55b, DD Form 250 and "Credit Memorandum" shall be listed in numerical sequence in this section when the forms have been mailed to customers other than another UNICOR factory. These forms shall be maintained in numerical sequence to reconcile this section each month and support the journal entries.
2. 12010 Accounts Receivable - Government - OPAC Billings. All TFS Forms 7306 "Paid Billing Statement for OPAC Transactions" and "Credit Memorandum" shall be listed in numerical sequence in this section. "Credit Memorandum" should be accompanied with a copy of the supporting documentation which initiated the credit.
3. 12010 Travel Advances. To maintain accountability for travel advances outstanding, an SF-1038 shall be obtained from the employee concerned. This card shall be maintained to monthly reconcile the Collection Bill Register and the support entries for this section upon issuance of the advance.
4. 12030 Accounts Receivable - Public. To maintain accountability for funds due from the public (i.e., amounts due resulting from canceled trips, the redemption of unused tickets) a SF-1170 is prepared. The SF-1170 provides the source document for posting to Account 12030, and shall be reconciled monthly. A month-end cut-off of the last page of the month should be made starting a new page for the following month. See Section 8505, Collections, for detailed closing procedures and journal entries when accounts receivable are collected.
5. 12040 Accounts Receivable - Unbilled Receivables, Current. This is used to maintain accountability for shipments of goods which will be billed to the customer at a later date. Upon completion of FPI Forms 55 which fall into this category, the accountant shall stamp "UNBILLED" in large letters on the form and list it in numerical sequence in this section. The sales value will be included on the FPI Form 55 and will be recorded as a sale to Account 410XX in this section. These forms shall be maintained in numerical sequence to reconcile this section each month and support the journal entries. When the terms of the contract (monthly, quarterly, etc.) permit invoicing the customer, all the FPI Forms 55 pertaining to that billing shall be accumulated and used as support documents to a total single invoice.

A single "Credit Memorandum" shall be used to clear the accumulated total of the "Unbilled Receivables" from this

section, so that the sales will not be recorded twice. Reference the invoice number and date of the invoice billed to the customer in the "Date Collected" column of the FPI Form 35, Collection Bill Register, on all "Unbilled Receivables" and "Credit Memorandum" when cleared from this section. The new invoice which will be sent to the customer will then be recorded in the appropriate section to the Collection Bill Register. Written authorization from Resources Division is required to use this account.

6. 12050 Accounts Receivable, Non-current. This is used to maintain accountability for contracts which require UNICOR to provide a cash advance to vendors for materials needed to manufacture a product. The cash advance must be long-term in nature and the outstanding balance will be reduced by the value of the materials received over a time period of greater than one year.

This register will be maintained in a log format with columns showing the date, value, Receiving Report number, voucher number, value received to date, and the outstanding balance to date of materials for which the cash advance was made. As materials are received, the value to these materials will be entered on a Receiving Report (Accountant 22000).

As vendor invoices are vouchered for payment, the accountant (technician) will credit Account 12050 for the portion (%) of the invoice amount specified in the contract and debit 22000 for the amount of the Receiving Report(s). Once scheduled, a copy of the voucher will be forwarded to the accountant (technician) to be logged in the Non-current Receivables register, Accountant 12050, in order to reduce the outstanding balance to date in this account.

SECTION 8505

COLLECTIONS

--RESCINDED--

8000.1
Chapter 8500
Page 8506
CN-15
August 24, 1983

SECTION 8506

COST ACCOUNTING MANUAL

FPI's Cost Accounting policies and procedures are contained in a separate manual. See FPI's business manager for more details.

FEDERAL PRISON INDUSTRIES, INC.
COST ACCOUNTING MANUAL

TABLE OF CONTENTS

	<u>Page</u>
PART 1 - INTRODUCTION	1-1
100. PURPOSE OF MANUAL	1-1
101. OBJECTIVES OF COST ACCOUNTING	1-1
102. RELATED UNICOR INSTRUCTIONS	1-1
103. MAINTAINING THE MANUAL	1-2
1. Users	1-2
2. Updating	1-2
3. Information	1-2
104. NATURE OF THE UNICOR COST ACCOUNTING SYSTEM	1-2
105. MANUFACTURING COST ELEMENTS	1-3
1. Definition	1-3
2. Types of Manufacturing Costs	1-3
106. FIXED AND VARIABLE COSTS	1-5
107. FLOW OF COSTS	1-5
108. UNICOR INDUSTRIES ORGANIZATION	1-5
1. Superintendent of Industries	1-8
2. Factory Manager	1-8

3.	Business Manager	1-8
4.	Quality Assurance Manager	1-9
109.	COST SYSTEMS OVERVIEW	1-9
1.	Job Order Cost System	1-9
2.	Process Cost System	1-13
3.	Comparison of the Systems	1-13
110.	STANDARD COST SYSTEM	1-13
111.	CHART OF ACCOUNTS	1-14
112.	SELECTING A COST SYSTEM	1-14
1.	Responsibilities	1-14
2.	Factors to Consider	1-15
PART 2 -	COST DATA ANALYSIS	2-1
200.	PURPOSE	2-1
201.	RESPONSIBILITIES	2-1
1.	Factory Manager	2-1
2.	Factory Foremen and Business Office	2-2
3.	Superintendent of Industries	2-2
4.	Product Division Manager	2-2
5.	Resources Division Manager	2-2
202.	DOCUMENTATION	2-3
203.	MONTHLY FINANCIAL REVIEW OF OPERATIONS	2-3

PART 3 - PRODUCTION COST FORMS	3-1
300. INTRODUCTION	3-1
301. BILL OF MATERIALS	3-1
1. Introduction	3-1
2. Responsibility	3-2
3. Preparation and Control	3-2
302. UNIT COST ESTIMATE, FPI FORM 73	3-3
1. Introduction	3-3
2. Responsibilities	3-3
3. Procedures	3-3
4. Routing and Distribution	3-7
5. Preparation	3-7
303. LABOR ESTIMATE/TIME STUDY, FPI FORM 57	3-10
1. Introduction	3-10
2. Responsibilities	3-12
3. Performing a Study	3-12
4. Preparation	3-13
304. SCHEDULE OF LABOR RATES, FPI FORM 58	3-15
1. Introduction	3-15
2. Responsibilities	3-15
3. Individual & Group Price Rates	3-16
4. Preparation	3-16
305. MATERIAL CONTROL LIST, FPI FORM 48	3-18

1.	Introduction	3-18
2.	Responsibilities	3-18
3.	Procedures	3-18
4.	Preparation	3-20
306.	PRODUCTION ORDER AND COST SHEET, FPI FORM 9	3-22
1.	Introduction	3-22
2.	Responsibilities and Procedures	3-22
3.	Preparation of Form 9 (Front)	3-23
4.	Preparation of Form 9 (Back)	3-32
307.	STORES REQUISITION AND TRANSFER, FPI FORM 49	3-33
1.	Introduction	3-33
2.	Responsibilities	3-34
3.	Procedures	3-36
4.	Preparation	3-41
<u>a.</u>	Withdrawing Raw Materials for Work in Process - Material (Account 18.1)	3-41
<u>b.</u>	Withdrawing Raw Materials for Raw Materials - Shop Stock (Account 20.4)	3-44
<u>c.</u>	Withdrawing Materials from Raw Materials - Shop Stock (Account 20.4) to Work in Process-Material (Account 18.1)	3-44
<u>d.</u>	Returning Excess or Unused Raw Materials to the Warehouse	3-45

<u>e.</u>	Transferring Raw Materials from One Job to Another	3-47
<u>f.</u>	Withdrawing Finished Goods (Account 15.1) to WIP (Account 18.1)	3-48
<u>g.</u>	Correcting Inventory Posting Errors of Quantities or Values	3-48
308.	MONTHLY LABOR SUMMARY, FPI FORM 19	3-49
1.	Introduction	3-49
2.	Responsibilities	3-49
3.	Preparation	3-49
309.	DEFECTIVE WORK/SCRAP REPORT, FPI FORM 31	3-51
1.	Introduction	3-51
2.	Responsibilities	3-52
3.	Preparation	3-54
PART 4 -	ACCUMULATION AND CONTROL OF MATERIAL COSTS	4-1
400.	INTRODUCTION	4-1
401.	DEFINITION OF CONTROL OF MATERIAL COSTS	4-1
402.	PURPOSE OF MATERIAL CONTROL	4-1
403.	RESPONSIBILITIES	4-2
1.	Factory Manager	4-2
2.	Quality Assurance Manger	4-2

3. Business Manager	4-2
404. IMPLEMENTING CONTROLS	4-3
405. RAW MATERIALS - SHOT STOCK (Account 20.4)	4-3
1. Accounting for Shop Stock	4-3
2. Periodic Review	4-4
406. SCRAP AND DEFECTIVE WORK	4-4
1. Definitions	4-4
2. Material Losses Outside Production	4-5
3. General Procedures	4-5
4. Control	4-5
5. Accounting	4-6
407. PACKAGING AND STORAGE COSTS	4-10
1. Containers and Lashings	4-10
2. Special Customer Requirements	4-10
3. Multiple Charges	4-10
408. MANUFACTURED COMPONENTS (SUBASSEMBLIES)	4-10
409. SPECIAL TOOLING	4-11
410. EXTERNAL PRODUCTION WORK	4-11
411. RESEARCH AND DEVELOPMENT COSTS (PROTOTYPES)	4-12
1. Definition	4-12
2. Authority	4-12
3. Accounting	4-12
4. Procedures	4-12

412. MINIMUM BUY	4-14
413. BY-PRODUCT COSTING	4-15
PART 5 - ACCUMULATION AND CONTROL OF LABOR	5-1
500. PURPOSE	5-1
501. CLASSIFYING DIRECT AND INDIRECT LABOR	5-1
502. ACCUMULATING AND ACCOUNTING	5-2
1. Requirements, General	5-2
2. Accounting	5-3
3. Standard Payroll System	5-3
4. Individual Piece Rate System	5-3
5. Group Piece Rate System	5-5
503. OVERTIME WAGES	5-5
504. SETUP TIME	5-5
505. IDLE LABOR	5-6
PART 6 - ACCUMULATION AND CONTROL OF OVERHEAD COSTS	6-1
600. DEFINITION	6-1
601. CHARACTERISTICS	6-1
1. Types	6-1
2. Analysis and Planning	6-2
602. FACTORY GENERAL AND ADMINISTRATIVE EXPENSES	6-2
603. OVERHEAD OTHER THAN MANUFACTURING	6-2

1.	Corporate and Division General and Administrative	6-2
2.	Personnel Transfers	6-2
3.	Other Overhead	6-2
604.	ACCUMULATION OF MANUFACTURING OVERHEAD	6-3
1.	Ledger Accounts and Entry Sources	6-3
2.	Costs Applicable to More than One Dept./Factory	6-3
605.	DISTRIBUTION OF MANUFACTURING GENERAL EXPENSE	6-4
1.	Definition	6-4
2.	Annual Distribution Formula	6-4
3.	Apportioning to Vocational Training	6-6
4.	Journal Entries	6-6
606.	PREDETERMINED ANNUAL OVERHEAD APPLICATION RATE	6-6
1.	Definition	6-6
2.	Responsibilities	6-6
3.	Approval	6-7
4.	Revision During Year	6-7
5.	Using Actual Overhead	6-7
607.	MANUFACTURING OVERHEAD BASE	6-7
1.	Selecting Overhead Base	6-7
2.	Selecting Base Activity Level	6-8
3.	Predetermined Overhead Costs Elements	6-8
608.	CALCULATING FACTORY OVERHEAD RATE	6-9

609. APPROVAL OF OVERHEAD APPLICATION RATE	6-9
610. APPLICATION OF OVERHEAD RATES	6-10
611. OVER/UNDER APPLIED OVERHEAD	6-10
1. General	6-10
2. Under-Applied Overhead	6-11
3. Over-Applied Overhead	6-12
4. Management Action	6-12
612. MANUFACTURING VARIATION - EXCESS COSTS	6-12
613. ORGANIZATIONAL EXPENSE	6-13
PART 7 - MANUFACTURING COST SYSTEMS, GENERAL	7-1
700. TYPES	7-1
701. AUTHORITY TO SELECT SYSTEM	7-1
702. PRODUCTIONS RUNS	7-1
703. INVENTORY VALUATION WRITE-OFFS	7-1
704. JOB FOLDERS	7-2
PART 8 - JOB ORDER COST SYSTEM	8-1
800. DEFINITION	8-1
801. BASIC PRINCIPLES	8-1
802. GUIDELINES	8-3
1. Authorizing production	8-3
2. Direct Materials	8-3
3. Direct Labor	8-1
4. Manufacturing Overhead	8-4
5. Job Completion	8-4

PART 9 - PROCESS COST SYSTEM	9-1
900. DEFINITION	9-1
901. BASIC PRINCIPLES	9-1
902. CHARGING COSTS TO DEPARTMENTS	9-4
903. EQUIVALENT UNIT COSTS	9-7
904. WORK IN PROCESS INVENTORIES	9-7
905. DIRECT MATERIAL	9-7
906. DIRECT LABOR	9-8
907. MANUFACTURING OVERHEAD	9-8
908. MONTHLY PROCESS COST SUMMARY SHEET, FPI FORM 59	9-8
1. Monthly	9-8
2. Completion of Lot or Batch	9-9
3. Preparation	9-9
PART 10 - STANDARD COST SYSTEM	10-1
PART 10 has been merged into paragraph 110.	10-1
PART 11 - COST REPORTING	11-1
1100. REQUIREMENTS, GENERAL	11-1
1101. RESPONSIBILITIES	11-1
1. Superintendent of Industries	11-1
2. Resources Division	11-1
3. Product Division	11-1

1102.	SUMMARY OF EXPENSE, FPI FORM 4	11-2
1.	Purpose	11-2
2.	Responsibilities	11-2
3.	Frequency	11-2
4.	Basic Principles	11-2
5.	Preparation	11-4
1103.	SUMMARY OF WORK IN PROCESS, FPI FORM 51	11-5
1.	Purpose	11-5
2.	Responsibilities	11-5
3.	Basic Principles	11-5
4.	Preparation	11-7
1104.	MONTHLY COMPLETED JOB ORDER REPORT, FPI FORM 10	11-10
1.	Purpose	11-10
2.	Responsibilities	11-10
3.	Basic Principles	11-12
4.	Preparation	11-12

EXHIBITS

FPI COST ACCOUNTING MANUAL

Exhibit No.
Page

1-A 1-6	Flow of Manufacturing Costs
1-B 1-7	Typical UNICOR Organization
1-C 1-10	Overview of UNICOR Cost Accounting
3-A 3-4	Unit Cost Estimate, FPI Form 73
3-B 3-5	Flow Chart, Unit Cost Estimate
3-C 3-11	Labor Estimate/Time Study, FPI Form 57
3-D 3-17	Schedule of Labor Rates, FPI Form 58
3-E 3-19	Material Control List, FPI Form 48
3-F 3-24	Production Order And Cost Sheet, FPI Form 9 (Front)
3-G 3-25	Production Order and Cost Sheet, FPI Form 9 (Back)
3-H 3-26	Flow Chart, Production Order and Cost Sheet
3-I 3-35	Stores Requisition and Transfer, FPI Form 49
3-J 3-37	Flow Chart, Withdrawing Raw Materials or Finished Goods for Work in Process
3-K	Flow Chart, Withdrawing Raw Materials from Raw Materials-Shop Stock for Work in Process - Production

3-38

3-L Flow Chart, Returning Materials from Work in
Process to Raw Material Inventory

3-39

Exhibit No.

3-M 3-40	Flow Chart, Transfer of Materials from Job
3-N 3-50	Monthly Labor Summary, FPI Form 17
3-O 3-53	Defective Work/Scrap Report, FPI Form 31
3-P 3-55	Flow Chart, Defective Work/Scrap Report
5-A 5-4	Major Steps in Accumulating Labor Costs
8-A 8-2	Flow of Accounting Transaction for Job Order and Process Cost System
9-A 9-2	Diagram, Process System Cost Flow
9-B 9-3	Process Cost System Document Flow Within a Production Department
9-C 9-5	Monthly Process Cost Summary Sheet, FPI Form 59 (Department 1)
9-D 9-6	Monthly Process Cost Summary Sheet, FPI Form 59 (Department 2)
11-A 11-3	Summary of Expenses, FPI Form 4
11-B 11-6	Summary of Work in Process, FPI Form 51
11-C 11-11	Monthly Completed Job Order Report, FPI Form

PART I

INTRODUCTION

100. PURPOSE OF MANUAL

This Manual prescribes requirements and provides guidance for applying uniform cost accounting procedures by UNICOR.^{1/} Although this Manual is a basic directive reference guide for operating the cost accounting system, it also provides a useful tool for on-the-job training of personnel unfamiliar with the system, particularly new employees.

101. OBJECTIVES OF COST ACCOUNTING

The UNICOR costs accounting system is the major quantitative and qualitative information system related to the UNICOR manufacturing processes. Its objective is to provide information useful to management in decision making involving:

- Product profit measurement
- Pricing
- Product Line additions/deletions
- Expansion/relocation of operations
- Planning and control of operations
- Product quality
- Productivity

102. RELATED UNICOR INSTRUCTIONS

This Manual is Section 8506 of the UNICOR Corporate Policies and Procedures Manual, hereafter referred to as the Corporate Manual.

Since cost accounting is only one element of UNICOR production management and accounting, this (Cost) Manual is necessarily designed

^{1/}Federal Prison Industries, Inc., is the legal name under which the Corporation conducts its business. In 1978, FPI adopted the trade name, UNICOR, under which it now does most of its business.

for us with related issuances, and users will need an awareness of the total corporate manual. For example, they will find references to other UNICOR instructions such as the following additional sections of the corporate manual:

- 8270, Pricing
- 8501, Chart of Accounts and Classification Codes
- 8520, Journal Entries
- 8509, Inventory Control
- 8511, Payroll
- 8513, Travel and Transportation
- 8515, Reports, Forms and Records

103. MAINTAINING THE MANUAL

1. Users. Copies of the Manual will be distributed to each Institution location, to Product Divisions, and to Corporate Management. Changes will be brought to users' attention promptly on receipt by Superintendents of Industries and posted to the maintained copies as soon as possible. The Manual must be readily available of races and use by UNICOR employees.

2. Up-dating. The Resources Division will be responsible for preparing, coordinating, obtaining approval, and arranging for publication changes to the Manual. Changes will be made by issue of looseleaf page substitutions or additions.

3. Information. Questions and comments relating to this Manual will be referred to the Resources Division, Phone 724-3140.

104. NATURE OF THE UNICOR COST ACCOUNTING SYSTEM

Cost accounting is a system which is designed to allocate all related costs incurred to a cost objective and match the costs to the proper accounting period. A cost objective is a function, process, service, or product for which provision is made to accumulate and measure the costs involved. The matching of costs to the applicable cost objective and accounting period, uniformity among similar factories, consistency over a period of time, and verifiability of information accumulated are desired goals of the UNICOR Cost Accounting System.

A cost accounting system identifies costs to be allocated, the accounting period to which the costs are allocable, and the manner in which they can be assigned to cost objectives. As an ideal, each item of cost (whether for labor, materials, or overhead) would be allocated to the cost objective which caused incurrence of the cost.

Since allocations are not designed to deal with insignificant amounts, the concept of "materiality" becomes a key consideration. That concept has been defined as a state of relative importance. The materiality of an item may depend on its size, its nature, or a combination of both. An item should be regarded as material if it is of sufficient importance to influence the decisions of management in the evaluation of the cost or viability of a particular product. Factors determining materiality are the dollar value of the item by itself and in relation to the overall cost objective, classification of the cost as direct or indirect, the cumulative effect of individually immaterial items, and the feasibility and expense of adequately accounting for such costs.

Costs that are not directly identified with the cost objective will be considered overhead and grouped into logical and homogeneous pools (e.g., indirect labor, depreciation, or indirect material). These costs shall then be allocated to the cost objective according to a base(s) which measures the entire activity. Measures of the activities ordinarily can be expressed in such terms as direct labor dollars or hours, total direct material costs, machine hours, square footage, or other reasonable and justifiable measure. The use of a portion of a total activity to allocate these indirect costs to the cost objective, such as direct labor dollars, is acceptable only if the base is a good representative of total activity being managed.

The composition of direct materials, direct labor, and overhead costs are explained in detail in subsequent paragraphs and parts. Detailed instructions are also provided for accumulating, allocating, and recording such costs.

105. MANUFACTURING COST ELEMENTS

1. Definition. Cost as defined in this Manual represents the accumulated value of the amount of cash, property transferred, services performed, or liability incurred for the production of revenue.

2. Types of Manufacturing Costs. Manufacturing costs are usually divided into three categories: direct material, direct labor, and overhead.

a. Direct Material. All materials that form an integral part of the finished product and which can be measured with reasonable precision are called direct material.

The ideal approach would be to charge all materials to a job or process as direct charges. The dollar significance, economy, and feasibility of directly tracing the material to the final product, however, must be considered in many instances. Materials of low dollar significance or multiple job or process usage do not warrant the time and effort required to assign those costs to a job or process. Such costs should be recorded as indirect material charges (Account 57.15, Manufacturing Expense, Indirect Materials).

See Part 4 for more details on accumulating direct material costs.

b. Direct Labor. All labor which can be readily traced to a job or a manufacturing process is classified as direct labor.

The important factor is identification of the work performed with a specific job or manufacturing process benefiting from the labor. Multiple job or process work efforts should be recorded as indirect labor whenever there is considerable complexity in assigning that work effort to a specific job or process.

Part 5 contains detailed data on accumulating direct labor costs.

c. Overhead. This category includes charges other than direct material and direct labor incurred to complete the product. They are indirect manufacturing costs that cannot be identified easily with specific units of production.

Some examples of overhead items are expenses for: materials/supplies not readily identifiable to a job or process due to size or quantity; labor not readily identifiable to a job or process, such as supervision; and utilities, travel, machine repair, special clothing, depreciation, and publications.

The nature, accumulation, and bases for applying overhead are explained in detail in Part 6, Accumulation and Control of Overhead Costs.

106. FIXED AND VARIABLE COSTS

All manufacturing costs can be further broken down by fixed and variable costs of facilitate analysis in developing overhead application rates. The effect of volume changes on costs are of prime importance to management in control and analysis of costs.

Fixed costs remain relatively stable over a given period of time despite significant changes in volume. Fixed costs are those incurred regardless of the volume of production and sales. Control of these costs are, generally, the responsibility of top management. Depreciation and civilian salaries are examples of fixed costs in UNICOR factories.

Variable costs, on the other hand, vary with volume. Responsibility for them rests with the Superintendent of Industries. Direct material and direct labor costs are examples of variable costs.

107. FLOW OF COSTS

A cost system involves the flow of costs from one account into another. See Exhibit 1-A, Flow of Manufacturing Costs.

As materials are purchased, they are held in Raw Materials and Supplies Inventory, an asset, from which they move to Work in Process Inventory, an asset, as needed. There, direct labor and factory overhead are added. The cost or rework or abnormal scrap is written off directly to Account 56.3, Cost of Sales, Abnormal Costs, as a period cost (see paragraph 406, Scrap and Defective Work). When goods are completed, their cost is moved into Finished Goods Inventory, an asset.

When goods are sold, the asset, Finished Goods, moves to the Income Statement as Cost of Goods Sold.

108. UNICOR INDUSTRIES ORGANIZATION

The most common organizational structure for UNICOR factory locations is illustrated graphically in Exhibit 1-B. Actual organizational structures will vary, of course, depending on size and operations.

Primary cost accounting responsibilities of the principal officials shown in the Exhibit are summarized in this paragraph. The items listed are not intended to be totally inclusive or to serve as position descriptions.

8000.1
Chapter 8500
Page 8506.1-6
CN-15
August 24, 1983

FLOW OF MANUFACTURING COSTS

8000.1
Chapter 8500
Page 8506.1-7
CN-15
August 24, 1983

Exhibit 1-B
TYPICAL UNICOR ORGANIZATION

1. Superintendent of Industries. The Superintendent's responsibilities are summarized as follows:

- Direct and coordinates the activities of assigned UNICOR staff and inmate workers in performing cost accounting functions in accordance with UNICOR policies and procedures.

2. Factory Manager. The Factory Manager's responsibilities include:

- Initiating documents to obtain the Superintendent's approval to start production.
- Preparing and approving requisitions for materials and supplies, and controlling items received for consumption in production or return to the warehouse.
- Approving Defective Work/Scrap Reports prepared by the Quality Assurance Manager.
- Supervising directly, or through a Foreman, the utilization of labor and the maintenance of records of labor used.
- Notifying the Business Manager of the completion of jobs or processes.
- Furnishing required information (forms, reports, etc.) to the Business Manager and the Superintendent.
- Analyzing the results and costs of production and participating in reviews with the Superintendent and the Business Manager.

3. Business Manager. The Business Manager's responsibilities include:

- Maintaining the required cost accounting records and procedures.
- Providing inventory management to include supervising the warehouse activities, and acquisition of needed materials and supplies.

- Preparing reports pertaining to the status and results of production and the resources used.
- Analyzing the results of production with relation to materials and preparing statistics with regard to other cost factors; participating with the Superintendent and the Factory Manager in reviews of the progress and results of production.
- Advising the Superintendent and other personnel regarding accounting requirements and methods.

4. Quality Assurance Manager. The Quality Assurance Manager's responsibilities include:

- Providing quality control services.
- Involvement in disposition of defective work and scrap.
- Initiating the Defective Work/Scrap Report, FPI Form 31, as described in paragraph 309.

109. COST SYSTEMS OVERVIEW

The two cost systems used in UNICOR factories are job order cost and process cost. A summary of the basic procedures described in this Manual for UNICOR cost accounting are presented in Exhibit 1-C, Overview of UNICOR Cost Accounting. More detailed procedures are provided in narrative instructions and flow charts in subsequent Parts of this Manual.

As will be seen, the last segment of Exhibit 1-C pertains to monthly reports. Using records identified in the Exhibit as source documents, the Business Office prepares several reports related to the cost accounting system. The inmate Payroll Record, FPI Form 41, is sent directly to the Institution Business Office. The other reports are reviewed and approved by the Superintendent of Industries and forwarded to the Resources Division and Product Division Managers. Instructions for preparing the Payroll Record and the Monthly Financial Statement are provided in Sections 8511 and 8515, respectively. Procedures for the other reports are in Part 11 of this Manual.

1. Job Order Cost System. In a job order cost system (see Part 8), the basis for accumulating the relevant costs is a job order(s) or work authorization that normally specifies a quantity of a particular product to be manufactured.

8000.1
Chapter 8500
Page 8506.1-10
CN-15
August 24, 1983

Exhibit 1-C

Overview of UNICOR Cost Accounting

8000.1
Chapter 8500
Page 8506.1-11
CN-15
August 24, 1983

Exhibit 1-C (Continued)

8000.1
Chapter 8500
Page 8506.1-12
CN-15
August 24, 1983

Exhibit 1-C (Continued)

2. Process Cost System. In a process cost system (see Part 9), the basis for accumulating the relevant costs is a process or cost center. There, cost are accumulated for a specific time period and, then, allocated to the homogeneous product output of the process for that period.

3. Comparison of the Systems. The main difference between the two approaches is their basis for cost accumulation. In a job order system, all relevant cost incurred for a particular lot, specified by the job order, are accumulated against, that order regardless of the period in which they are incurred. In a process cost system, all relevant costs incurred for a particular process are accumulated for the time period required to complete that process.

In either case, the accumulated costs are divided by recorded production to determine unit costs f production.

110. STANDARD COST SYSTEM

A standard cost system is composed of carefully predetermined or estimated costs of material, labor, and overhead. Basically, standards are separately determined for each cost element by analysis of prior records with adjustment for changed conditions.

Standard costing is not a mutually exclusive system. It is often used by a wide variety of organizations in conjunction with job order costing and process costing. It is a system where actual costs are promptly compared with standard costs at the completion of a job to reveal variances that can be analyzed to determine production efficiency.

Because of the number of constraints in UNICOR's industrial operations, as would be expected in such areas as engineering, business positions, and types of accounting systems, standard cost systems are not currently used in UNICOR. Partial uses of standards by UNICOR in several ways are outlined in Parts 8 and 9 on job and process costing, respectively. Example of the use of standards are making allowances for scrap, machine breakdown and lost time, the use of the Unit Cost Estimate totals in estimating credits and ending balances for work in Process Inventory, and labor and overhead estimates in determining overhead application units.

Complete use of standards requires extensive planning and engineering of standards. Any of factories desiring to implement such a system shall contact the Product and Resources Division Managers for authority to use standard costs.

111. CHARTS OF ACCOUNTS

The UNICOR Chart of Accounts is a vehicle for budgetary and cost accounting control. It provides General Ledger control accounts for the recognized elements of cost, and it segregates and details all expenses. The Chart of Accounts is used to identify the flow and charge of costs to production activity and facilitates processing cost information into meaningful cost reports.

See Chapter 8500, Section 8501, Chart of Accounts in the Accounting Manual, for a complete breakdown of each account, a description of its contents, and related accounting entries which affect the account.

112. SELECTING A SYSTEM

When a new factory is established or when significant production changes are made to an existing operation, it will be necessary to select an appropriate cost accounting system.

1. Responsibilities. The Superintendent of Industries at each factory location, utilizing his assigned staff, is responsible for selecting the appropriate type of cost system and developing and monitoring the cost system for each assigned or planned factory. When the cost system has been developed, it will be submitted in writing to the appropriate Product Division Manager for review and approval.

The Product Division Manager is responsible for reviewing and approving each system submitted. Once the Product Division Manager has approved the system he will forward it to the Resource Division Manager for further review and approval.

The Resource Division Manager will review and approve the system and return it to the Superintendent of Industries through the Product Division Manager. Approved proposals will be permanently maintained on file at the factory locations and in Resources Division.

Summary disapprovals of proposed cost systems will not be made. All problems that a Product Division Manager has with a proposed cost system will be discussed and resolved with the Superintendent of Industries who submitted the proposal. In the event of nonresolution as a result of such discussions, the Product Division Manager is responsible for rendering a binding decision. This same process will apply for problems with the system which occur between the Product Division Manager and the Resource Division Manager. In this instance, the Resource Division Manager is responsible for rendering a binding decision, and then approving the system as resolved.

Cost accounting systems which are currently in use and which comply with the guidelines of this manual will not be submitted for reapproval. Compliance with the provisions of this Manual will be examined during periodic factory audits.

Requests to deviate from the guidelines of this manual will be submitted to the Resources Division through the Product Division for approval. Requests must contain justifications for such deviations. Such requests will be reviewed in the same manner and detail as requests to establish new systems.

The following guidance will be applied by a Superintendent of Industries when developing new systems or when requesting deviations for existing systems.

The routing/control system must insure that responsibility/accountability is designated for each specific action, all required information is properly entered, and required files are maintained to allow ease of review and control. When variations are used, justification, narrative descriptions, and flow charts shall be made to facilitate its review, approval, and use.

An effective cost accounting system depends upon accurate and timely information from all levels of UNICOR. Corporate, division, factory and business office personnel, each, has a responsibility to insure that this is accomplished. Each must exercise due care and diligence in the use of this Manual.

2. Factors to Consider. The following factors should be considered in selecting a system:

- The type of product and the expected quantity to be manufactured of a particular product.
- The production and storage space that will be available to process and store a minimum level of stock.
- The variety or number of different type of products which are to be produced at the location.
- The anticipated demand for the product to be manufactured; i.e., whether the demand is recurring and continuous or is non-recurring and sporadic.

PART 2

COST DATA ANALYSIS

200. PURPOSE

UNICOR's cost forms and reports, properly interpreted, can disclose the effectiveness of factory productivity and the cost of producing a product.

Analysis and interpretation of this cost information provide the substantive value to be obtained from the cost system and the work involved in providing the data. Net profit or loss information in financial reports can be misleading and provides little substantive basis for identifying production problems areas so that corrective action can be taken. For example, factories with favorable sales or raw material prices may show substantial profits despite inefficient production activity. On the other hand, factories showing losses or minimum profits may be operating efficiently, but poor profit margins for products or inherent production problems preclude favorable financial results.

The cost system can provide the necessary information to evaluate and manage factory production activity effectively. Not only can problem areas and corrective measures be identified, but meaningful recognition can be given to effective work efforts and to those responsible for that effort.

201. RESPONSIBILITIES

Throughout this Manual, the need for analysis is identified and responsibilities are assigned. Nevertheless, the significance of the analysis phase of UNICOR's cost system warrants emphasis and summarization.

Analysis of the information provided by the UNICOR cost system if it is to be effective, cannot be postponed for convenient times or left to others. It should be a scheduled action for management personnel to accomplish. Without such analysis, the UNICOR cost system cannot serve the needs of factory, institution, division, or corporate level personnel.

1. Factory Manager. They are responsible, upon job completion, for the analysis of each FPI From 9, Production Order and Cost Sheet. Material Control Lists, Monthly Labor Summaries, and overhead expense accounts also need.

to be reviewed for reasonableness of accumulated data. See paragraphs 306, Production Order and Cost Sheet; 305, Material Control Lists; 308, Monthly Labor Summary; and 1102, Summary of Expense.

Corrective action must be taken, as necessary, to assure the validity of reported data. Comparison of Production Order and Cost Sheet, FPI Form 9, results with Unit Cost Estimates, FPI Form 73 (paragraph 302), should lead to the Factory Manager to conclusions regarding reasonableness of cost estimates, correctness of recorded data, and effectiveness of factory production. Analysis of overhead charges may disclose inaccuracies in the amount of overhead allocated to specific products based upon the service supplied. Analysis of overhead expenses on Summary of Expense, FPI Form 4 (paragraph 1102), may disclose the need for improved controls.

Factory Manager's reviews of defective work reports will provide further insight into production problems. (See paragraph 309, Defective Work/Scrap Report.) Decisions can be made as to how to solve those problems, or conclusions reached as to the inappropriateness of the product for manufacture within the confines of available resources.

2. Factory Foremen and Business Office. Factory Foremen and Business Office personnel need to be included in the analysis phase of the cost system. They need to be given an opportunity to account for noted deficiencies or provided the methodology needed to solve pertinent problems.

3. Superintendent of Industries. Superintendents have responsibility for reviewing the factory reports for reasonableness and discussing results of operations at least monthly with the Business and Factory Managers. He/she shall results of factory analyses and provide Factory Managers with the support needed to correct problems.

4. Product Division Manager. Product Division Managers have responsibility for insuring the review of factory reports for reasonableness and accuracy of entries, analysis in terms of the factory objectives, and comparison of price/cost relationship of completed jobs. Products Divisions shall monitor production problems and provide support and resources where necessary.

5. Resources Division Manager. The Resources Division Manager has the responsibility to insure the review of factory reports for timeliness of submission, reasonableness and accuracy of entries, and analysis for compliance with corporate accounting policies and procedures. Resources Division shall be responsible for insuring compliance with

corporate accounting, procurement and warehousing policies and procedures.

202. DOCUMENTATION

Analysis of jobs or processes will be accomplished by the Business Office at least monthly for all open and closed jobs. The analysis will include a comparison of finished production costs to estimated costs for that production, and analysis of the reasonableness of ending work-in-process balances. Any variances of plus or minus 10 from estimates will be forwarded to the Factory Manager for explanation, and the Superintendent of Industries for review.

To facilitate the analysis and review of a job or process, a job folder will be maintained on each. The Production Order and Cost Sheet, FPI Form 9, is the primary document of this folder as this form is used for production authorization, the summary of costs and production, and results of analysis. Copies of the following documents shall also be maintained in the job folder to facilitate control, review, and audit of a job or process.

Monthly Labor Summary, FPI Form 17

Defective Work/Scrap Report, FPI Form 31

Material Control List, FPI Form 48

Stores Requisition and Transfer, FPI Form 49

Unit Cost Estimate, FPI Form 73

Receiving Report, FPI Form 11 (if applicable)

203. MONTHLY FINANCIAL REVIEW OF OPERATIONS

As discussed in the above paragraphs, analysis and review of cost data can provide the necessary information to evaluate and manage factory production effectively.

To facilitate the analysis, the Superintendent of Industries, the Business Manager, and the Factory Manager will meet, monthly, to discuss results of operations. Meeting topics shall include sales, earnings, delinquent orders, and any other relevant areas of operations. Special attention should be focused on any jobs with variances of plus or minus 10.

To improve the effectiveness of these meetings, the Quality Assurance Manager, factory cost accountant and one or more of the department foremen should also attend.

Minutes of these meetings shall be maintained for each factory and copies forwarded to the Resources Division and applicable Product Division Managers. They shall also be an item of review during periodic audits of factory operations.

PART 3

PRODUCTION COST FORMS

300. INTRODUCTION

This Part outlines the basic forms to be used for accumulating, tracing, and controlling manufacturing costs. It provides narrative instructions for preparing the forms as well as suggested flow charts (routing) for their use. These are the preferred routing and control methods.

Direct labor cost is the most prevalent base used throughout UNICOR for the application of overhead. Therefore, the format of all forms and examples of how the forms are used presuppose direct labor cost as the base. If another base for application of overhead is authorized (see Part 6), that base should be used.

All required document numbers will be assigned in accordance with the UNICOR Policies and Procedures Manual, Section 8010. The following basics forms are illustrated in this Part:

<u>Paragraph</u>	<u>Form</u>
301	Bill of Materials
302	Unit Cost Estimate, FPI Form 73
303	Labor Estimate/Time Study, FPI Form 57
304	Schedule of Labor Rates, FPI Form 58
305	Material Control List, FPI Form 48
306	Production Order and Cost Sheet, FPI Form 9
307	Stores Requisition and Transfer, FPI Form 49
308	Monthly Job Labor Summary, FPI Form 19
309	Defective Work/Scrap Report, FPI Form 31

301. BILL OF MATERIALS

1. Introduction. A Bill of Materials is required for all products produced by UNICOR. The Bill of Materials is a master listing

of all materials, both direct and indirect, required to produce an end product. The listing is based on specifications and quantities of materials from blueprints, drawings, schematics, etc., to be used in the manufacturing of individual products. The Bill of Material is primarily used as a source for preparing the material section of the FPI Form 73, Unit Cost Estimate. It should also be used as an aid in procurement planning and preparation of the FPI Form 48, Material Control List.

2. Responsibility. The Product Division Office has responsibility for preparing the Bill of Materials but may delegate the responsibility to the Factory Manager. It is expected that all available resources, such as the Engineering Section, will be utilized to assure accurate and complete preparation of this document. Assigning responsibility for its preparation should be consistent within a division.

A copy of the Bill of Materials covering each end product will be available at division and factory level offices as it provides more detailed information than the unit Cost Estimate. Indirect materials are not recorded on Unit Cost Estimates and each factory must be knowledgeable of all material requirements for a product. Further, availability of the Bills of Materials permits each factory to review and compare them to Unit Cost Estimates to ensure that materials are charged to the job as direct materials when required.

3. Preparation and Control. Since the Bill of Materials is merely a list which in some cases may be included as part of the blueprints or drawing, there will be no approved FPI Form.

Economies of scale should also be considered in determining the number of units for which the bill is prepared. For example, you would not start production for one shelf but would produce in minimum lot sizes. The Bill of Materials shall identify all materials as direct or indirect by part number, description, specifications, and total quantity. Quantities will include allowance for unavoidable scrap, cutting loss, and inherent defective workmanship. Allowances for inherent defective workmanship should be estimated based on losses to be expected, regardless of controls, due to such circumstances as experience level of workers, material deficiencies, complexity of job, etc. Losses that may occur because of lack of production controls such as use of wrong die or material shall not be included. Allowances for unavoidable loss can be affected by the lot size to be produced. For example, percentage losses for production of 10,000 units would probably be less than the percentage losses for production of 100 units. The actual percentage will vary, depending upon the circumstances discussed in this paragraph, but would normally be expected to be in the range of 1/2% to 3%. (See Section 406.)

302. UNIT COST ESTIMATE, FPI FORM 73

1. Introduction. Unit Cost Estimates, FPI Form 73, provide management with information concerning anticipated productions costs for each product to be manufactured. The data furnished by Unit Cost Estimates are used to:

- Establish guidelines for dollar amounts to be charged to finished goods upon transfer of completed products from work in process.
- Measure efficiency and evaluate performance by comparing actual costs with estimated costs.
- Aid in decisions such as output, bidding on contracts, and make-or-buy evaluations. (See Section 8270, Pricing.)
- Quoting prices to customers.
- Estimating profit percentages.

The form is displayed in Exhibit 3-A.

2. Responsibilities. The Superintendent of Industries is responsible to insure that current Unit Cost Estimates are prepared for all products and component parts manufactured at his factory location.

The Factory Manager shall prepare Unit Cost Estimates.

The Business Manager will furnish financial data related to raw material cost, applicable labor rates, applied overhead rates, etc.

The Unit Cost Estimates will be forwarded through the Superintendent of Industries to the Product Division Office for review and approval. After review by the Product Division, applicable approved copies will be returned to the factory location. (See flow chart, Exhibit 3-B.)

3. Procedures. The Factory Manager will prepare Unit Cost Estimates for each new product to be manufactured, or as requested. They shall be reviewed annually and upon completion of each job for the product. Variances noted after the job completion due to permanent changes in costs of material and/or labor usage or the overhead rate shall be cause

8000.1
Chapter 8500
Page 8506.3-4
CN-15
August 24, 1983

Exhibit 3-A
Unit Cost Estimate, FPI Form 73

8000.1
Chapter 8500
Page 8506.3-5
CN-15
August 24, 1983

Exhibit 3-B
Material Control List
FPI Form 48

to submit a revision. Unit Cost Estimates are normally computed on a unit basis, but can also be based on the quantity requested by customer or on economical production runs where the product is normally produced in large quantities, such as shoes.

The following guidelines should be followed by the Factory Manager when preparing Unit Cost Estimates.

a. Direct Material. Estimating the cost of direct material should begin with a review of the Bill of Materials for the product to be manufactured. Available material requirements information for the product, including material control lists for prior jobs, shall be utilized to determine what estimated quantities of materials are needed. When using prior material control lists, however, changes in specifications between past and proposed work need to be evaluated. Estimated material requirements shall include a provision for inherent loss of materials for unavoidable scrap, cutting loss, and inherent defective workmanship. Packing costs shall be included when possible.

If a customer inquiry order requires special tools, dies, jigs or fixtures, that are to be purchased or manufactured, their costs should be included in the Unit Cost Estimate for the product. See paragraphs 409 and 407.2 for detailed instructions.

After final analysis of the above information, a detailed listing of direct materials required for production shall be summarized and listed on the Unit Cost Estimate. The costs are then computed individually for each listed item by multiplying the individual quantities of direct materials by their anticipated unit price. Unit prices are derived from the current inventory cost records maintained in the Business Office, or by obtaining market price quotations through the Procurement Office from potential suppliers.

Where anticipated production is not scheduled to begin until some time in the future or where production will be performed over an extended time period, Unit Costs Estimates shall contain an allowance for projected price change/inflation.

See Part 4 for detailed explanation of accumulating material costs.

b. Direct Labor. Estimating the cost of direct labor required to manufacture a unit of any type shall begin with an analysis of the work to be performed. Direct labor costs are composed of two factors: (1) the time it takes to do a job, and (2) the rate of pay for labor

skills required. These two factors are equally important and must be estimated as precisely as possible.

When considering these two factors, the work to be performed shall be determined and identified by operations at each work station. The time required and rate of pay based on grade or skill levels, will be assigned to each operation. This information shall be listed on the FPI Form 57, Labor Estimate/Time Study (see paragraph 303), and be summarized on FPI Form 58, Schedule of Labor Rates (see paragraph 304). The total estimated labor cost of all operations summarized on the Schedule of Labor Rates will be the total labor cost entered on the Unit Cost Estimate. If packing costs were included as a direct charge, insure that associated labor costs are shown as a direct charge. These estimates should be periodically reviewed and updated to reflect changes in machinery being used, design change, etc.

See Part 5 for detailed explanation of direct labor costs.

c. Overhead. The estimated cost of overhead required to manufacture a unit of any type shall be based on the standard annual overhead rate approved by the Product Division Manager. See part 6, Accumulation and Control of Overhead Costs.

d. Total Manufacturing Costs. The total amounts estimated for material, labor and overhead are totaled to comprise the estimated total manufacturing costs. This figure is used to determine whether UNICOR can produce the items at a profit, given the current market price. When the current market price is not known, this figure is used as a basis for determining the selling price.

4. Routing and Distribution. Upon signature approval of the Superintendent of Industries, this six-part form will be routed in accordance with Exhibit 3-B.

5. Preparation. The following instructions shall be used in completing this form. Alphabetical letters are references to letters on the sample form in Exhibit 3-A.

Block

Explanation

- | | | |
|----|-------------------|---------------------------------------|
| A. | <u>Factory</u> . | Enter name of Factory doing the work. |
| B. | <u>Location</u> . | Institution name. |

<u>Block</u>	<u>Explanation</u>
C. <u>Estimate No.</u>	Designed for in-house control of UCE's. Number is assigned by the Factory Manager, using the next assignable number in a series of consecutive numbers or from a log.
D. <u>Date.</u>	Enter the date of preparation.
E. <u>Stock No.</u>	Catalog stock number assigned by Product Division to identify a product for inventory and marketing control purposes.
F. <u>Item.</u>	Provides a narrative description of the product to be produced. Description shall be obtained from the UNICOR Product Catalog. If not contained in the Catalog, description will be obtained from customer order, drawings, specifications, etc. Complete all applicable spaces in this block.
G. <u>Last Cost Statement No.</u>	Information furnished in this block will assist management in decisions as to whether item should be produced. Fill in all applicable spaces.
H. <u>Part No.</u>	This number is utilized as identification and control for items in raw materials inventory. Obtain number from Bill of Materials, or inventory stock record cards, or division management.
I. <u>Item.</u>	Provides a narrative description of raw material. Include size where applicable.
J. <u>Quantity.</u>	Identifies the quantity of a specific part number required to produce an item or group of items.
K. <u>Price.</u>	Provides an estimated or current price per unit for material described in Block I. Obtain from stock records, quotes, catalogs, etc. If projected prices are used, enter note to that effect in "Remarks" (Block T).
L. <u>Material Cost.</u>	Multiply quantity in Block J times unit price in Block K. Enter product of multiplication.
M. <u>Direct Material Cost</u>	Represents total costs of all items listed in Block L. Enter total.

<u>Block</u>	<u>Explanation</u>
N. <u>Direct Labor Cost Per Unit.</u>	Represents labor cost estimated to produce a specific item. Cost is obtained from Schedule of Labor Rates, FPI Form 58 (see Paragraph 304). Insert hours estimated and average labor rate used in determining labor costs. If estimate of future labor cost is required, use total hours to produce from Schedule of Labor Rates FPI Form 58, multiplied by estimated hourly wages and quantity to be produced to determine estimated labor cost. For Form 58, see paragraph 304.
O. <u>Overhead.</u>	Enter standard overhead rate approved by the Division Manager. Multiply by total estimated labor costs, N, or other base being used, to determine total estimated overhead costs.
P. <u>Total Manufacturing Costs.</u>	This figure is derived by adding material, labor, and overhead figures shown in blocks M, N, and O. Enter total of M, N, and O.
Q. <u>Recommended Minimum Selling Price.</u>	Based on estimated manufacturing costs, Block P, multiplied by 118. Enter product as recommended selling price.
R. <u>Comparable Commercial Price.</u>	Usually, FPI selling prices will be based on comparable open market price. Factory Manager enters price obtained from catalogs, quotations, etc. If no commercial price is available, attach a memo explaining efforts made to obtain this information. Product Division should make effort to determine price if none is provided by factory.
S. <u>Supplemental Information.</u>	Enter description/explanation of any costs anticipated which are not identified in the material listing or which are not normally charged as an overhead or sales expense, such as initial tooling costs.
T. <u>Remarks.</u>	Provided to explain any unusual characteristics related to the current Unit Cost Estimate or job in Block G. Explain any differences of 10 or more from the last cost statement identified in Block G.

<u>Block</u>	<u>Explanation</u>
U. <u>By (Factory Manager).</u>	Factory Manager initials, acknowledging review and approval.
V. <u>By (Business Manager).</u>	Business manager initials verifying accuracy of prices, rates, and computations.
W. <u>Superintendent of Industries.</u>	Superintendent signs, approving estimate for submission to Product Division Office.
X. <u>Selling Price.</u>	Product Division Office enters approved selling price based upon comparison of recommended minimum selling price, comparable commercial price, and customer negotiations.
Y. <u>Signature and Title.</u>	Complete for Product Division officer approving selling price.
Z. <u>W.O. or Inquiry</u>	Enter number to control and identify to a specific customer requesting the work. This may be the number for a Division Work Order, Request for Quotation, Inquiry, Telecon, ect.

303. LABOR ESTIMATE/TIME STUDY, FPI FORM 57

1. Introduction. The FPI Form 57, Labor Estimate/Time Study, is used by management to: (1) estimate labor requirements for products not previously produced, or (2) record results of time studies of labor necessary to perform a given task or operation.

It is one of the most important sources of information in the UNICOR cost system as the labor standards developed form the basis for price decisions and evaluation of production efficiency. Since labor cost is UNICOR's most commonly used base for allocation of overhead costs, the accuracy of this estimate/study and conversion to labor cost has significant effort on profit/loss margins and the reliability of inventory reporting.

A sample FPI Form 57 is illustrated in Exhibit 3-C.

The data furnished on this form is used to:

Determine a standard time for performing an operation which can be used to establish fair inmate pay rates for either a group or individual piece rate system. (See paragraph 304.)

8000.1
Chapter 8500
Page 8506.3-11
CN-15
August 24, 1983

Exhibit 3-C
Labor Estimate/Time Study,
FPI Form 57

- Assist in determining labor and overhead cost estimates to be used on Unit Cost Statement, FPI Form 73.
- Measure the efficiency of actual work performance as compared to pre-production estimates.

Because of the importance of accurate labor standards, it is essential that time studies be developed for a product as early as possible in the production life cycle. Labor estimates in lieu of time studies should be used only for evaluating new products or operations for which a time/cost estimate is needed for pricing purposes, or when the capability (experience/training) of available personnel is not sufficient to perform an actual time study.

Standard times will not remain accurate indefinitely. Changes in operation due to redesigning parts, improving machinery, or changing materials should be cause to reevaluate the time standard. Retiming old jobs, however, should be held to a minimum as this could cause undue impact on worker morale and reduce productivity. In general, a job should not be retimed unless improvements in the operation or the acquisition of new equipment is expected to produce more than 5% alteration in time requirements.

2. Responsibilities. The Factory Manager is responsible for insuring that an FPI Form 57, Labor Estimate/Time Study, is prepared for each product produced. Subdivide the job into operations that have definite start and stop points. The study/estimate for each operation may be conducted by Department Foreman, Product Division personnel, or other reliable resource. The Factory Manager, however, is responsible for the overall preparation and accuracy of these estimates.

3. Performing a Study. Before a labor estimate/time study is attempted, management should assure itself that the job had been standardized as much as practicable and individual operations have been improved and/or simplified for efficient production. Failure to do this can result in poor standards that are too liberal, requiring retiming of the job in the future.

The basic steps to be followed in performing the time study are:

a. Select the operator to be observed. A better-than-average worker should be selected because he will be less hesitant and less erratic in his motions.

b. Divide the job into operations/steps. Subdivide the job into operations that have a definite start/stop point and list them on the FPI Form 57. As each operation is listed and timed, it should describe the work cycle or sequence of operations of the job.

c. Observation, clocking, and recording time. The operator may, or may not, be advised of the timing process depending on the technique of the observer. The observer should time the work effort a sufficient number of times to be sure that the time is accurate.

d. Analysis. The observer should check that machines were working properly during the study and that the work being turned out met quality standards to insure the validity of his observations. During the study, the observer should rate the operator (compared with the average employee who will perform the task) in respect to degree of skill possessed, effort made, consistency of motions and work condition. Other factors to be considered are adjustments for fatigue, personal delays, preparation, and possible unavoidable delay.

The observer should, then, render an opinion of the time to be allowed for the operation; that is, the time that will be expected of an average worker under normal operating conditions. This may be the same, more, or less than the observed time. Decision as to time allowed is a matter of judgment, based upon the study results and the experience and training of the observer.

e. Convert units completed to units per hour. Example: If 5 units are completed in 20 minutes, then the hourly rate would be $3 \times 5 = 15$ units per hour.

4. Preparation. The total of all operations will be summarized on the FPI Form 58, Schedule of Labor Rates. Specific instructions for the Labor Estimate/Time Study, FPI Form 57, are as follows, keyed by letter to corresponding blocks on the sample in Exhibit 3-C.

<u>Block</u>	<u>Explanation</u>
A. <u>Stock No.</u>	Enter the National Stock Number (NSN) or UNICOR Part Number of the end product being produced.
B. <u>Analysis No.</u>	Enter the next sequential number from the numeric file for this form.

<u>Block</u>	<u>Explanation</u>
C. <u>Date.</u>	Date of preparation.
D. <u>Article and Description.</u>	Enter the name and any descriptive information available such as size, weight, gauge, etc. Include Production Job Number and Customer Work Order Number if applicable.
E. <u>Operation No.</u>	Assign an operation number for each phase of work being performed. Enter number.
F. <u>Description.</u>	Describe operation such as "Trim and Stock Blank."
G. <u>No. of Workers and Grade.</u>	Enter the number of persons performing the operation in each pay grade. Worker requirements will vary, based on the nature and complexity of the operation. Use a separate line for each grade if workers of more than one grade are used in an operation.
H. <u>Time Elapsed.</u>	Enter the average time actually used to perform the operation if based on an actual study, or estimated time if the unit has never been produced. Times that are too high or low compared to other observed times should be eliminated from the average as unrepresentative of study/sample.
I. <u>Time Allowed.</u>	Enter the standard time to be allowed for pay and costing purposes. The elapsed time adjusted by the time study observer based on the judgmental factors noted in subparagraph 303.3d.
J. <u>No. of Units Completed On Study (Total).</u>	Enter the average number of units completed during the study time period.
K. <u>No. of Units Completed On Study (Per Hour).</u>	Convert the units completed to completed per hour.
L. <u>Remarks</u>	Observer shall note whether data based on time study or estimate. Shall also mention any assumption or other pertinent information.

<u>Block</u>	<u>Explanation</u>
M. <u>Article.</u>	Description of subassembly which results after a number of operations. Example: A desk drawer requires several operations. Information on each article is transferred to FPI Form 58, Schedule of Labor Rates (paragraph 304), for summary of job labor cost.
N. <u>Operation Nos.</u>	Numbers of operations that make up a subsebyl for which a rate cost is desired. See Block E.
O. <u>Production Time by Grade.</u>	Summarize production time by operation and by grade. Multiply (G) times (I) for each grade and include in applicable grade box. For example, for an operation requiring 2 Grade One employees, 3 Grade Two, and 1 Grade Four, with allowed time for completing one unit of 15 minutes, the summary entry for Grade One would be: 30 minutes; for Grade Two, 45 minutes; and for Grade Four, 15 minutes.
P. <u>Recommended.</u>	Signature and title of person who conducted time study or made estimate.
Q. <u>Factory Manager.</u>	Signature of Factor Manage indicating verification and approval.
R. <u>Superintendent.</u>	Signature of Superintendent of Industries approving the results of the Study.

304. SCHEDULE OF LABOR RATES, FPI FORM 58

1. Introduction. The Schedule of Labor Rates, FPI Form 58 is a multipurpose form used to summarize the information developed on the Labor Estimate Time Study, FPI Form 57 (see paragraph 303), establish piece rates for individual systems and establish total labor costs to produce a product. As such, it provides the input data for the labor time and estimate section of the Unit Cost Estimate, FPI Form 73. It is also used for establishing rates for costing production actively and Work in Process inventory valuation.

2. Responsibility. The Factory Manager is responsible for insuring that the form is prepared. The Business Manager should provide assistance in computing the cost per unit and verifying the accuracy of total labor cost. The form shall be reviewed by the Superintendent of Industries and the Product Division Manager and approved by the Warden.

3. Individual and Group Piece Rates. Schedule of Labor Rates, Form 58, provides essential information for establishing individual and group piece rates. Paying individual piece rates should be based upon the Labor Cost Per Unit (by Grade) M, Exhibit 3-C. For example, an operation performed would have a labor cost per unit of 20/CT/ (80/CT/ per hour, divided by 4 units produced per hour). The 20/CT/ should be used as a reference point for establishing an individual piece rate for that grade of employee performing that operation. The basis for paying group piece rate employees would be determined by totaling the labor cost per unit, by grade applicable to all operations included in an identified group, department, process, etc.

4. Preparation. The form should be redone each time there is a change in pay rates on hours required to produce a product. The following instructions are to be used by Factory Managers in preparing the Schedule of Labor Rates, and are keyed to the sample Form 58 displayed in Exhibit 3-D.

<u>Block</u>	<u>Explanation</u>
A. <u>Schedule No.</u>	Enter the next sequential number from the numerical file for this form.
B. <u>Factory.</u>	Self explanatory.
C. <u>Location.</u>	Self explanatory.
D. <u>Analysis No.</u>	Enter Analysis Number(s) from Labor Estimate/Time Study, FPI Form 57, being summarized.
E. <u>Article</u> <u>Description.</u>	Identify the article to be produced. Operation on which an individual piece rate is to be based shall be listed separately by the operation and grade.
F. <u>Production</u> <u>Time.</u>	Summarize estimated time by grade to produce the subject product as detailed in FPI Form 57's summarized.
G. <u>Labor Cost</u> <u>per Unit.</u>	The accumulated total of pay allowed for each article at the standard hourly rate for each grade. The pay allowed for each grade is determined by multiplying the fraction of an hour times the standard hourly rate. Example:

Exhibit 3-D, Drawer, 12/2 x 22 x 11
Grade 1 - 10' : 60' x \$1.00 = .167
Grade 2 - 14' : 60' x \$.80 = .187
Grade 3 - 10' : 60' x \$.60 = .100

$$\text{Grade 4} - 4' : 60' \times \$.40 = \frac{.027}{.481}$$

8000.1
Chapter 8500
Page 8506.3-17
CN-15
August 24, 1983

SCHEDULE OF LABOR RATES

<u>Block</u>	<u>Explanation</u>
H. <u>Total (all cost Operations).</u>	Enter total production time by grade and total per unit.
I. <u>Standard Hourly Rate.</u>	Current rates of inmate pay authorized in Section 8511.
J. <u>Recommended.</u>	Signature of Superintendent of Industries recommending rate.
K. <u>Superintendent.</u>	Signature of Product Division Manager indicating review and recommendation of rates.
L. <u>Approved.</u>	Signature of Warden approving rates.

305. MATERIAL CONTROL LIST, FPI FORM 48

1. Introduction. The Material Control list, FPI Form 48, is an explosion of the direct materials listed on the Bill of Materials (paragraph 301), and is used to identify the actual materials required to produce a specific quantity of end units.

This form is primarily used to monitor and control the issuance of materials to a job. It can also be used as an aid to identify and initiate procurement activity for required material. Furthermore, it will be used to evaluate the quantities and costs on the Unit Cost Estimate, FPI Form 73, and help in the FPI Form 9 analysis. (FPI Form, 9 Production Order and Cost Sheet, is explained in paragraph 306.) For a sample Form 48, see Exhibit 3-E.

2. Responsibilities. The Factory Manager is responsible for the preparation and monitoring of the Material Control List.

3. Procedures. Form 48 should be prepared immediately after a job is authorized on FPI Form 9. Copies of the Material Control List will be furnished to department foremen who will process the job. Based on requirements identified by the Material Control List, the Department Foreman will initiate and submit material requisitions to the Factory Manager for approval. The Factory Manager or designated representative will insure that no request for material in excess of those on the Material Control List are approved unless properly justified. Storeroom requisitions explained further in paragraph 307.

8000.1
Chapter 8500
Page 8506.3-19
CN-15
August 24, 1983

Exhibit 3-E
Material Control List, FPI Form 48

After approval, the Factory Manager shall assign the requisition a suspense control number to insure that the requisition is processed. The requisition is then forwarded to the storekeeper for processing the order and then to the Business Office.

After posting the requisition, the Business Office returns a completed copy to the Factory Manager, at which time the furnished quantities and amounts will be posted to the Material Control List. Any issuance in excess of the quantity listed on the Material Control List will be noted on the Material Control List at that time. These notations can later be utilized to explain material variances from the Unit Cost Estimate when performing the job analysis.

Upon completion of the job, a copy of the Material Control List will be forwarded to the Business Office. The Business Office shall use the List in analyzing material variances when completing the Production Order and Cost Sheet, FPI Form 9.

The Factory Manager will file his copy of the Material Control List in the production folder for retention, reference and audit upon completion of job and/or analysis.

4. Preparation. The following instructions are furnished to assist personnel in the proper preparation of the Material Control List, and are keyed to the sample Form 48 displayed in Exhibit 3-E.

<u>Block</u>	<u>Explanation</u>
A. <u>Page of .</u>	Identify the page number of total pages (forms) used for the unit(s) to be produced. If there is only one sheet, the entry will be "Page <u>1</u> of <u>1</u> pages." If there are two pages, the block would read, "Page <u>1</u> of <u>2</u> ," or " <u>2</u> of <u>2</u> pages," etc.
B. <u>Date.</u>	Date of preparation.
C. <u>Product.</u>	Enter name description of the unit to be produced.
D. <u>Stock No.</u>	Enter the stock number of the unit to be produced.
E. <u>Job No.</u>	Use this block to reflect the specific job order number from the Production Order and Cost Sheet, FPI Form 9.

<u>Block</u>	<u>Explanation</u>
F. <u>Quantity.</u>	Enter the number of units to be produced as shown on the FPI Form 9.
G. <u>Part No.</u>	Identify each raw materials part number to be used for production of the Finished Goods unit. Use one section of the form for each part number required to produce the produce the product. Parts provided for should agree with parts listed on the United Cost Estimate, Form 73, for the product.
H. <u>Description.</u>	Describe raw material item listed in G. Also see the items identified in the Unit Cost Estimate.
I. <u>Quantity Per Assembly and Total.</u>	Fill in the number of pieces required to make one assembly and the total required to complete the job requirement. For example, if 4 legs are required to make a desk, 40 legs are required for a job requiring 10 such desks.
J. <u>Estimated Cost Per Assembly.</u>	Fill the estimated cost of the number of pieces required to make one assembly and the total cost required to complete the job requirement.
K. <u>Control No.</u>	Number assigned to a requisition by the Factory Manager to prevent possible duplication of material requests. Take this number from the Factory Control No. box on the applicable FPI Form 49, Stores Requisition and Transfer, see paragraph 307.
L. <u>Requisition No.</u>	Enter the requisition number which has been assigned by the storekeeper in the Warehouse Control No. box on the FPI Form 49.
M. <u>Quantity storeroom and compare to total should be justified. If necessary part of production in, a new Estimate should be initiated.</u>	Enter the amount from the "filled" column on the requisition. Summarize at end of job in Block I. Differences are a Unit Cost
N. <u>Balance.</u>	Enter the balance of rare material units required to complete the job. This figure is the difference between the total quantity in (I) minus (M) for the

Block

Explanation

initial requisition and the difference of (N) minus (M) for subsequent entries.

O. Value.

Factory Manager shall enter value of each issue. Summarize at end of job and compare to total in Block J. Differences should be justified and used to explain variance analysis on the Production Order and Cost Sheet, FPI Form 9. (See paragraph 306.3.) If differences are due to significant ($\pm 10\%$) change in prices, a new Unit Cost Estimate should be initiated by the Factory Manager.

306. PRODUCTION ORDER AND COST SHEET, FPI FORM 9

1. Introduction. Production Order and Cost Sheet, FPI Form 9, is a multipurpose form that: (1) authorizes the manufacture of certain identified products, (2) accumulates ongoing production costs for that job, (3) serves as a subsidiary ledger for Work in Process Inventory, (4) furnishes summary data for analysis of production efficiency, and (5) provides a documentary record of production transferred to finished goods.

2. Responsibilities and Procedures. The Factory Manager is responsible for and will initiate the FPI Form 9, in triplicate, upon receipt of a sufficient quantity of work orders from the Product Division Office to warrant production. This decision should be based on considerations such as plant capacity and economical production runs. Work orders are frequently a copy of customer's orders with an annotated Division work order control number or other authorized forms that have been annotated with a work order control number.

The cost cycle is initiated by the Factory Manager upon assignment of a job control number to a Form 9. A numerical log of work orders assigned to each job shall be maintained by the Factory Manager. The form is routed to the Superintendent of Industries for review and approval.

Upon approval by the Superintendent of Industries, the original is forwarded to the Business Office for recording of cost as incurred. One copy is then routed to the Factory Manager for his numerical control file, and copies are provided to all applicable Factory Foremen.

The Cost Accountant enters production costs related to the job on the Business Office copy of the Form 9 as they are incurred. All cost entries posted to the Form 9 shall reference the source document and dates thereof. Quantities of finished goods transferred to stores are recorded as deliveries are made, with dollar values for material, labor, and overhead being recorded at month end and upon job completion.

Each Factory Manager shall develop an internal procedure for advising the Business Office of job completions, in writing, no later than the following work day.

The Factory Manager shall also review all open jobs with the Business Office, monthly, to ensure accuracy of job status and review reasonableness of Work in Process inventory balances.

Summary space is provided, on the FPI Form 9, for recording actual cost totals upon completion of the job. Such totals also include costs per unit, unit estimated costs from applicable Unit Cost Estimates (FPI Form 73), unit cost variance between actual and estimates, and explanations for major variances.

Without exception, the "Cost Summary" section must be completed at the end of each job. Actual direct material, direct labor, or overhead cost variances of plus or minus 10 percent from estimates must be analyzed for cause by the Factory Manager and a written explanation provided on the Form 9. In those instances, copies of the Form 9 shall be submitted to the Product Division for review and possible corrective active.

This analysis activity is an essential control element of the FPI cost accounting system. It provides a check on the validity of cost recording and accumulation. Also, it provides a basis for evaluation of civilian and inmate work performance. Problems can be identified and solutions formulated to prevent recurrence in future production.

Procedures for the routing and processing of the Form 9 are summarized in the flow chart, Exhibit 3-H.

3. Preparation of FPI Form 9 (Front). Production Order and Cost Sheet, FPI Form 9, Exhibit 3-F, has been keyed with alphabetical letters, to correspond to the following instructions for preparing the Form.

8000.1
Chapter 8500
Page 8506.3-24
CN-15
August 24, 1983

Exhibit 3-F
Production Order and Cost Sheet,
FPI Form 9 (Front)

8000.1
Chapter 8500
Page 8506.3-25
CN-15
August 24, 1983

Exhibit 3-G
Production Order and Cost Sheet,
FPI Form 9 (Back)

8000.1
Chapter 8500
Page 8506.3-26
CN-15
August 24, 1983

Exhibit 3-H
PRODUCTION ORDER AND COST SHEET, FPI FORM 9

<u>Block</u>	<u>Explanation</u>
A. <u>Job No.</u>	Designed for in-house control of job related documentation. Assigned by Factory Manager from the next assignable number from a log of such numbers in a series of consecutive numbers or from a distinctive number system that provides specific information about the job.
B. <u>Date of Job.</u>	The date that the job number is assigned Serves to identify the start of production control.
C. <u>Date Completed.</u>	Remains open until the Factory Manager determines that the production cycle is completed and associated products are transferred to finished goods, at which time the completion date is entered.
D. <u>Date Promised.</u>	Date of delivery promised to customer upon receipt of order. Take from work order or copy of the customer's order, or other advice from the Product Division.
E. <u>Work Order No.</u>	A number reference supplied by the Division as their control number. In many instances, multiple Division control numbers will be involved in a job. In those instances, the FPI Form 9 should be annotated "See Below" and all applicable work order numbers involved should be recorded under Special Instructions (M) on the FPI Form 9 to the extent practical. Jobs involving voluminous orders should carry the notation "various" in Block (E). A factory locally devised procedure will be established to provide a reference in those instances.
F. <u>Factory and Location</u>	Identify the factory and name of the Institution where Institution where located.
G, H. <u>Ordered by, Address, Order No. and Date.</u>	Identifies the customer and other pertinent information supplied by the customer.

<u>Block</u>	<u>Explanation</u>
I. <u>Material Control List No.</u>	References the factory's Material Control List document prepared by Factory Manager for each job order. See paragraph 305.
J, K, L. <u>Quantity, Size, and Description</u>	Identifies the product and quantity to be produced to satisfy this job order.
M. <u>Special Instructions.</u>	This section provides space for any special instructions or itemizing work order numbers as commented on in Block E.
N. <u>To Shop Foreman</u>	Superintendent of Industries' signature, authorizing production. The Superintendent of Industries cannot authorize manufacture of a product for stock without written approval from Corporate Management through the Product Division Manager.
O, P. <u>Date and Reference No.</u>	Post Month and source reference data such as journal vouchers or monthly summary data from the reverse side of the Production Order and Cost Sheet, and the Monthly Labor Summary, FPI Form 19. For explanation and sample of Form 19, see paragraph 308.
Q. <u>Material</u>	<p>(1) <u>Material Received.</u> Each month, or upon job completion, post the total(s) of materials requisitions for the job to "Production Costs-Material" (Block Q). This information is taken from the back of the Form 9.</p> <p>(2) <u>Returns to Warehouse.</u> Raw materials returned to the Warehouse, if any, will also be posted monthly to "Production Costs-Materials" (Block Q), from the back of the Form 9, Materials Requisition section. Such returns will be posted as minus (-) amounts in parentheses; e.g., "SEP, RET (\$200.00)."</p> <p>(3) <u>Documentation.</u> A copy of each requisition, FPI Form 49, will be included in the job folder for both issuances and returns, to provide further detail concerning the requisition. Requisitions will be posted</p>

<u>Block</u>	<u>Explanation</u>
	to the reverse side of the Form 9 during the month, with weekly recording the maximum allowable backlog period.
R. <u>Labor.</u>	Dollar amount expended for direct inmate labor on a job. The dollar amount is obtained from Monthly Labor Summary, FPI Form 19. See paragraph 308.
S. <u>Overhead.</u>	Dollar amount based on factory's predetermined manufacturing overhead rate. Computation of manufacturing overhead is explained in Part 6 of this Manual.
T. <u>Deliveries to Finished Goods.</u>	<p>This section is for credits to Work in Process. Enter quantity, if applicable, and costs of units transferred from (credited to) Work in Process. Transfer may be to Finished Goods Inventory or Manufacturing Variance--Abnormal Costs. The following are sources for such transfers and instructions for their posting:</p> <p>(1) <u>To Finished Goods Inventory.</u> Each month or upon job completion, post to Block T, Deliveries of Finished Goods, the total quantities and values for deliveries to Finished Goods. This information is taken from the back of the Form 9, section entitled, "Delivery to Finished Goods." Material, labor, and overhead amounts are obtained by applying Unit Cost Estimate, FPI Form 73, amounts to the quantities delivered (see Block V, Col. 3). See paragraph 302.</p> <p>The number of pieces delivered to Finished Goods is recorded on the back of the Form 9, from production reports, delivery tickets, requisitions, or receiving reports. Data recorded includes date,</p>

reference, quantities, and identification of item(s). Deliveries will be posted to the back of the Form 9 during the month, with weekly recording the maximum allowable backlog period. (2) To Cost of Sales-Abnormal Costs. Post to Block T, a summary of material, labor and overhead

<u>Block</u>	<u>Explanation</u>
	reported on any Defective Work/Scrap Report, FPI Form 31, applicable to the job. Those costs will be summarized monthly or upon job completion. See paragraph 309.
U. <u>Work in Process Inventory</u>	A month-end valuation obtained by subtracting amounts transferred to finished goods, raw materials, and spoilage (Block T) from production costs to date. It is imperative that work in process (WIP) valuations be reviewed at month end for consistency with WIP on hand. In those instances where the valuations are obviously and significantly in error, a physical inventory should be taken. If physical inventory procedures are not feasible, reasonable estimates by job should be made. Estimated figures should be compared to the General Ledger balance for WIP Inventory and corrections made as necessary by an adjusting entry with adjusted amounts charged to Finished Goods, Cost of Sales, or Manufacturing Variation, as applicable.
V. <u>Cost Summary.</u> prepare	Upon job completion, Business Office personnel shall this section and explain any significant raw material price variance(s). All other variances shall be referred to the Factory Manager for review, comment, and (if required) corrective action.
<u>Column 1. Total Cost.</u>	Fill in, upon completion of job: Lines 1, Material; 2, Labor; and 3, Overhead. Amounts are the total production costs from Blocks Q, R, and S. <u>Line 4, Manufacturing Cost.</u> Add Lines 1, 2, and 3.

Lines 5, Freight; 6, Erection.

Enter as applicable to the job.

Obtain from vendor invoices or paid vouchers charged to the job.

Copies of supporting documents shall be maintained in job folder.

Line 7, Other. To be used

primarily for summary of abnormal costs related to the job. This

line may be used to list other costs such as tooling. Use

Block

Explanation

shall be explained in "Item" column
or "Variance Explanation" column.

Line 8, Total. Add Lines 4, 5, 6 and 7.

Line 9, Sales Amount. Enter from the work order(s), or
customer order(s), received from the Product Division.
Lines 9 and 10 are used to record and compare actual
and estimated sales/earning data on this job for
management review.

Line 10, Profit/Loss. Subtract
Line 8, Total (Costs), from Line 9,
Sales Amount, to obtain gross
profit or (loss). If a loss, enter
the difference in parentheses;
e.g., (500.10).

Line 11, Labor Hours. Obtain and
enter the number of direct labor
hours from the Monthly Labor
Summary, FPI Form 19, paragraph
308.

Column 2. Unit
Cost.

The actual cost per unit is arrived at by
dividing the number of units produced (Block T) into
the total material, labor overhead, and other costs
entered on the corresponding lines in Column 1, Total
Cost.

Column 3. Est.
Cost.

The estimated cost per unit data are obtained
from the Unit Cost Estimate, FPI
Form 73, and should be recorded
during the original drafting of the
FPI Form 9. As previously noted,
unit estimate values for material,
labor, and overhead are used to
compute values for transfer to
Finished Goods.

Column 4.
Variance.

The values for variances between actual and
estimated costs/amounts are obtained by subtracting the
amounts in Column 3, Estimated/Cost, from the amounts
in Column 2, Unit Cost (actual). The differences are
entered in Column 4, Variance. When Column 2 amounts
are larger than Column 3 amounts, minus differences are
obtained and should be entered as minus amounts; e.g.,
-2.05.

Column 5.
Percentage.

Obtain the percentages by dividing the line
item amounts in Column 4, Variance, by

<u>Block</u>	<u>Explanation</u>
	corresponding line item amounts in Column 3, Est. Cost; e.g., -2.05 (Col. 4) /div/ 104.60 = .02, and the entry would be -2%.
<u>Column 6.</u> <u>Variance</u> <u>Explanation.</u>	As previously stated, any variance exceeding plus or minus 10% must be explained by the Factory Manager, except that the Business Office will explain significant raw material price variances. Additional space is provided on the back of Form 9. These explanations require a thorough understanding of production activity and detailed review and analysis of production data. Explanations should be specific, readily understandable, and directed to problem solving.

4. Preparation of FPI Form 9 (Back). The back of FPI Form 9 (Exhibit 3-G) consists of five blocks: (A) Material Requisitions, (B) Delivery to Finished Goods, (C) Variance Explanation, (D) By, and (E) Reviewed.

<u>Block</u>	<u>Explanation</u>
A. <u>Material</u> <u>Requisitions.</u>	Information is recorded in this block from filled requisitions for the job and for materials returned to the Warehouse. See subparagraph 306.3 Q.
<u>Column 1. Date</u>	Enter date of the requisition(s), FPI Form 49. See paragraph 307.
<u>Column 2.</u> <u>Reference.</u>	Enter Warehouse Control No. from the FPI Form 49.
<u>Column 3.</u> <u>Cost.</u>	Enter total monetary value(s) of the materials furnished in response to the requisition or of excess materials returned to the Warehouse. For materials returned to the Warehouse, enter the value in parentheses to indicate a minus amount; e.g., (51.32).
B. <u>Delivery to</u> <u>Finished Goods.</u>	The number of pieces delivered to Finished Goods are recorded in this block from

<u>Block</u>	<u>Explanation</u>
	production reports, delivery tickets, requisitions, or receiving reports. See Subparagraph 306.3 T, Deliveries to Finished Goods.
<u>Column 1. Date.</u>	Month and day of the delivery.
<u>Column 2. Reference.</u>	Reference document number of form used to transfer goods.
<u>Column 3. Quantity.</u>	Number of units delivered.
<u>Column 4. Items.</u>	Name(s) of item(s) delivered.
<u>Column 5. Size.</u>	If more than one size of item of same type was delivered, enter size or other descriptive data to identify. For example, gloves. shirts, medium, small.
C. <u>Variance Explanation.</u>	Space for overflow of variance explanation from front of Form 9.
D. <u>By.</u>	(1) business Manager, or representative, signs and enters date on which Business Office entered its completion of job postings and summaries. (2) Factory Manager signs and enters date on which he/she completed the Variance Explanation.
E. <u>Reviewed.</u>	Superintendent of Industries signs and dates, signifying that he has completed his review and discussions, if any, with the Factory Manager and the Business Manager of variances.

307. STORES REQUISITION AND TRANSFER, FPI FORM 49

1. Introduction. The cost of materials must be charged to the applicable job or process for control and costing purposes. The FPI Form 49 is the form used for reporting materials and their costs enter-

ing the production process. It can be used under the following circumstances:

- a. Withdrawing materials and supplies for production (its basic purpose).
- b. Withdrawing raw materials for Raw Materials-Shop Stock (Account 20.4).
- c. Withdrawing raw materials from Raw Materials-Shop Stock (Account 20.4) to WIP-Material (Account 18.1).
- d. Returning excess or unused raw materials to the warehouse.
- e. Transferring raw materials from one job to another.
- f. Withdrawing finished goods for WIP (Account 18.1)
- g. Correcting inventory posting errors of quantities or values (FOR ACCOUNTING PURPOSES ONLY).
- h. As a posting medium for registers, Warehouse and Business Office stock records, and FPI Form 9, Production Order and Cost Sheet.

A sample FPI Form 49 is illustrated in Exhibit 3-I.

2. Responsibilities. The Business Office has final responsibility to insure that the FPI Form 49 is completed properly, approved, and reviewed for accuracy and reasonableness.

The Factory Manager or a designated representative is responsible for approving Form 49 and ensuring that no materials are requested in excess of the material requirements listed on the Material Control List, FPI Form 48, for that job unless justified by documented proof of loss, damage, spoilage, or increased production requirements. The Factory Manager will insure that rework is properly approved and documented to facilitate identification and control for accounting purposes. See paragraph 309, Defective Work/Scrap Report.

The requisitioning officer, Factory Manager, Warehouse Supervisor, and accountant each have responsibilities to ensure this form is properly approved and processed. Since this is the primary form used to trace and control materials and their costs, it is essential that each individual understands the interrelationships of their responsibilities.

8000.1
Chapter 8500
Page 8506.3-35
CN-15
August 24, 1983

Exhibit 3-I
Stores Requisition and Transfer,
FPI Form 49

3. Procedures. The procedures for routing and using FPI Form 49 are summarized in flow charts. Instructions for preparing the form are found in the subparagraphs listed below. As will be noted, no flow chart is included for 307.4 g, as none is required.

Preparation

Instructions
Exhibit
Subparagraph

Procedural-Flow Chart

3-J	Withdrawing Raw Materials or Finished Goods for Work in Process (Account 18.1)	307.4 a
3-J	Withdrawing Raw Materials for Raw Materials-Shop Stock (Account 20.4)	307.4 b
3-K	Withdrawing Raw Materials from Raw Materials-Shop Stock (Account 20.4) for Work in Process-Material (Account 18.1)	307.4 c
3-L	Return of Materials from Work in Process to Raw Materials Inventory (Warehouse)	307.4 d
3-M	Transfer of Materials from Job to Job	307.4 e
3-J	Withdrawing Finished Goods (Account 15.1) to Work in Process (Account 18.1)	307.4 f
None	Correcting Inventory Posting Errors of Quantities or Values.	307.4 g

Variations from these suggested flow charts are acceptable if they contain in similar controls and are reviewed and approved by the Product and Resource Division Managers. The essential control element of the issue system is that one control point or person in each factory is responsible for review and approval of requests.

The FPI Form 49 is composed of an original and five copies: namely original, onion skin, green, pink, blue, and yellow. Copies will

8000.1
Chapter 8500
Page 8506.3-37
CN-15
August 24, 1983

Exhibit 3-J

8000.1
Chapter 8500
Page 8506.3-38
CN-15
August 24, 1983

Exhibit 3-K

8000.1
Chapter 8500
Page 8506.3-39
CN-15
August 24, 1983

EXHIBIT 3-L

8000.1
Chapter 8500
Page 8506.3-40
CN-15
August 24, 1983

Exhibit 3-M

generally be retained/distributed as follows except for those forms that are initiated for accounting purposes only:

- Original. Retained by the Business Office as a posting medium for the Requisition Register and the Master Inventory Stock Record file. Originals should be filed in numerical sequence at the end of the month.
- Onion Skin. Retained by the Business Office for posting the Production Order and Cost Sheet (FPI Form 9). This copy shall be filed in the Business Office job order folder.
- Green. Retained by the Warehouse Supervisor for his numerical file.
- Pink. Forwarded to Factory Manager for file.
- Blue. Retained by requisitioning officer after receipt of the material.
- Yellow. Retained by Factory Manager for suspense file of materials requested. Disposed of when no longer needed for current business.

All copies will remain on file for a minimum of three years except the yellow copy.

4. Preparation. The following subparagraphs contain detailed instructions for preparing FPI Form 49 under various circumstances. Alphabetical "Block" letters are references to corresponding blocks on the sample form illustrated in Exhibit 3-I.

a. Withdrawing Raw Materials for Work in Process-Material (Account 18.1). Also, see flow chart, Exhibit 3-J.

Make a separate requisition for indirect materials (Account 57 charges) not related to a specific job.

<u>Block</u>	<u>Explanation</u>
A. <u>Factory.</u>	Name of Factory requesting the material.
B. <u>Date.</u>	Date of preparation of the form.
C. <u>Factory Control No.</u>	Entered by the Factory Manager as a suspense file control number.

<u>Block</u>	<u>Explanation</u>
D. <u>Warehouse Control No.</u>	Entered by the Warehouse Supervisor after materials are assembled for delivery to factory as a Warehouse/Business Office control number. A separate series of numbers prefixed by an alpha designation shall be utilized at multiple factory locations. The number entered will be the next unassigned number in a series of consecutive numbers.
E. <u>Job and Recipient.</u>	Factory Manager inserts job number and department or foreman to which material is to be issued. Issues involving indirect materials (Account 57 charges) not related to a specific job require a separate requisition with "Job" crossed out and "General Factory Use" inserted.
F. <u>Approved by.</u>	Full name, signature, and title of the Factory Manager or designated representative authorizing the request. For requests for materials in excess of Material Control List, FPI Form 48, requirements caused by loss or damage of materials, the word, "REWORK," will be stamped in bold letters on each copy of the FPI Form 49. As a precautionary measure, the warehouse supervisor will question or verify unfamiliar names or signatures which do not appear to be authentic.
G. <u>Reference.</u>	Insert account number for the requested materials. This number is filled in by the Business Office. Account used can be verified by reference to Unit Cost Estimate. Requisitions stamped "REWORK" will be charged to account 56.3, Cost of Sales-Abnormal Costs.
H. <u>Part No.</u>	Part number of each item being requested. To avoid incorrect charges or removals, use extreme care when indicating part numbers. Consult the Business Manager if there is any doubt as to the correct part number.

<u>Block</u>	<u>Explanation</u>
I. <u>Quantity Requested.</u>	Quantity requested and unit of issue; e.g. 45 ea., 400 bd. ft., 7 gal., etc. The Material Control List, FPI Form 48, should be used as a basis for determining the quantities of materials to be requisitioned.
J. <u>Quantity Furnished.</u>	The quantity furnished shall be filled in by the Warehouse Supervisor before delivering the supplies.
K. <u>Quantity Bal. on Hand.</u>	The balance on hand shall be determined and filled in by the Warehouse Supervisor before delivering the supplies. This balance will be verified by the Business Office against its stock record cards as it is posted.
L. <u>Article.</u>	Complete description of the materials (article) being requisitioned. The Material Control List, FPI Form 48, should be used to ensure that the materials listed thereon correspond to the materials to be requisitioned.
M. <u>Unit Price.</u>	Filled in by the Business Office. It is based on and will be the most current average price on stock record cards. Unit cost will be carried to one-hundredth of a cent (e.g., 1..2678).
N. <u>Amount.</u>	Filled in by the Business Office. It is obtained by multiplying the quantity furnished by the unit price. The resulting costs should be rounded to dollars and cents (e.g., 1.55).
O. <u>Account No.</u>	The accountant will be responsible for summarizing all costs by account number from Block G.
P. <u>Debits.</u>	Entered by accountant, the Debit amounts shall equal the total amount computed in Block N.
Q. <u>Account No.</u>	Entered by accountant. Insert Account No. 20.1 (for Raw Materials and supplies).

<u>Block</u>	<u>Explanation</u>
R. <u>Credits.</u>	Accountant enters: the credit amounts shall equal the total amount itemized in Block P.
S. <u>Stock Cards.</u>	Initialled by the accounting clerk who posted the stock record cards.
T. <u>Cost.</u>	Initialled by the accountant who coded the requisition.
U. <u>Filled.</u>	The Warehouse Supervisor shall sign prior to delivering the materials. His signature will attest that the requisition has been filled to the extent possible and that only the materials requested have been furnished. The materials shall be delivered directly to the requisitioning officer noted in Block E or to a responsible officer in the absence of the requisitioning officer. Under no circumstances shall inmates be authorized to sign for materials delivered from the warehouse.
V. <u>Received.</u>	Date on which the materials were received by the Factory. It is important that the requesting officer record the date of delivery for it is also used to determine the period in which the costs will be recorded on the cost registers and reports.
W. <u>Signature of person receiving.</u>	The receiving officer shall examine each delivery to verify that the quantity and type of materials furnished are the same as those which have been documented (Block J) prior to affixing his signature.

b. Withdrawing Raw Materials for Raw Materials-Shop Stock (Account 20.4). The requisitioning process is the same as withdrawing materials for production, subparagraph a above. Also, see flow chart, Exhibit 3-J.

c. Withdrawing Materials from Raw Materials-Shop Stock (Account 20.4) to Work In Process-Material (Account 18.1). The process is the same as withdrawing materials for production except for the following items (see paragraph 307.4 a and flow chart, Exhibit 3-K):

<u>Block</u>	<u>Explanation</u>
E. <u>Job and Recipient.</u>	Factory Manager indicates transfer from Account 20.4 to a job; e.g., from 20.4 to: Job #900.
K. <u>Quantity Bal. on Hand.</u>	Balance entered by Factory Manager.
Q. <u>Account No.</u>	Insert Account Number 20.4 instead of 20.1.
U. <u>Filled.</u>	Signed by Custodian of unassigned material who filled the order.

d. Returning Excess or Unused Raw Material to the Warehouse.

For such transactions, follow the instructions below in preparing the Form 49. Also, see flow chart, Exhibit 3-L.

<u>Block</u>	<u>Explanation</u>
A. <u>Factory.</u>	Name of the Factory returning the materials.
B. <u>Date.</u>	Date of preparation of the form.
C. <u>Factory Control No.</u>	Entered by Factory Manager as a file control number.
D. <u>Warehouse Control No.</u>	Warehouse number issued by the Warehouse Supervisor upon receipt of the requisition and materials from the Factory.
E. <u>Job and Recipient.</u>	Factory Manager enters to "Warehouse from Job _____," on this line, entering the applicable job number.
F. <u>Approved by.</u>	Approval signature by Factory Manager Insure Material Control List, FPI Form 48, is adjusted to reflect transfer of material from job.
G. <u>Reference.</u>	Business Office inserts account number for material being turned in.
H. <u>Part No.</u>	Initiator shall assure that returned materials are identified with the correct part number.

<u>Block</u>	<u>Explanation</u>
I. <u>Quantity Requested.</u>	Insert "NA" (not applicable).
J. <u>Quantity Furnished.</u>	Initiator indicates the exact quantity of the materials being returned.
K. <u>Quantity Bal. on Hand.</u>	The Warehouse Supervisor shall indicate the balance on hand after adding the returned materials to the inventory balance. The Business Office will also verify this balance against stock record cards after posting.
L. <u>Article.</u>	Initiator provides complete description of the materials being returned. The Warehouse Supervisor stamps the word, "CONTRA," on the face of the requisition and all copies in bold letters to avoid mishandling.
M. <u>Unit Price, & N. Amount.</u>	The accountant enters the unit price and amount. These will normally be the same as the original cost of the materials when they were initially withdrawn from the warehouse. This information can be obtained from FPI Form 9, Production Order and Cost Sheet.
O. <u>Account No.</u>	Accountant inserts Account Number 20.1.
P. <u>Debits.</u>	Accountant inserts amounts. The amount shall be same as the amount determined in Block N.
Q. <u>Account No.</u>	Accountant summarizes all cost data by account number from Block G.
R. <u>Credits.</u>	Same as Block P above.
S. <u>Stock Cards.</u>	Initialled by the accounting clerk who posted the stock record cards.
T. <u>Cost.</u>	Initialled by the Accountant responsible for coding the requisition.
U. <u>Filled.</u>	Signed by Department Foreman returning materials.
V. <u>Received.</u>	Date received by Warehouse Supervisor.

<u>Block</u>	<u>Explanation</u>
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W. <u>Signature of Person Receiving</u>	Signed by Warehouse Supervisor.
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e. Transferring Raw Materials from One Job to Another. Exhibit 3-M summarizes the procedure for transferring raw materials from one job to another.

<u>Block</u>	<u>Explanation</u>
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A. <u>Factory.</u>	Name of factory where work is being done.
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B. <u>Date.</u>	Date of preparation of the form.
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C. <u>Factory Control No.</u>	Number issued and controlled by the Factory Manager.
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D. <u>Warehouse Control No.</u>	Number issued and controlled by the Warehouse Supervisor.
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E. <u>Job and Recipient.</u>	Factory Enters "Job to Job," entering applicable job numbers.
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F. <u>Approved by.</u>	The factory Manager must sign the requisition to indicate his approval of the transfer. Factory Manager will use the Material Control List, FPI Form 48, to determine need/requirement for material being transferred. Insure FPI Forms 49 are adjusted.
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G. <u>Reference</u>	All transfers shall be from and to Account 18.1.
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H. <u>Part No.</u>	Take extreme care to ensure the correct part number is posted. Prior requisitions or Unit Cost Estimate should be reviewed if there is any doubt or uncertainty as to the correct number.
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I. <u>Quantity Requested.</u>	Insert "NA" (for nor applicable).
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J. <u>Quantity Furnished.</u>	Indicate quantity being transferred.
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<u>Block</u>	<u>Explanation</u>
K. <u>Quantity</u> <u>Bal. on Hand.</u>	Insert "NA" (for not applicable).
L. <u>Article</u>	Complete description of the material being transferred.
M. <u>Unit Price,</u> and N. <u>Amount</u>	Accountant will enter the unit price and amount. These will, normally, be the same as the material's original cost which can be gained from the original requisition for the materials.
O. <u>Account No.</u>) Since this transaction involves only the
P. <u>Debits.</u>) transfer of raw materials between two jobs.
Q. <u>Account No.</u>)insert "NA."
R. <u>Credits</u>)
S. <u>Stock Cards.</u>)
T. <u>Cost.</u>	Accountant initials.
U. <u>Filled.</u>	Signature of the officer initiating the transfer.
V. <u>Received.</u>	Date on which the gaining job receives the materials.
W. <u>Signature of</u> <u>Person</u> <u>Receiving.</u>	Signature of officer receiving transfer, if applicable.

f. Withdrawing Finished Goods (account 15.1) to WIP (Account 18.1). The requisitioning process is the same as withdrawing materials for production, except Account 15.1 shall be inserted in item "Q".

g. Correcting inventory posting errors of quantities or values.
This requisition shall be initiated by the Business Manager or his assistant. The initiator, in the Business Office, will sign his/her name in the "Approved by _____" box of FPI Form 49. A number (item D) will be obtained from the Warehouse Supervisor for posting reference. The following clause will be typed on the face of the

requisition to indicate administrative action: "FOR ACCOUNTING PURPOSES ONLY." Cross reference to erroneous document as applicable.

The green copy shall be forwarded to the Warehouse Supervisor for his numerical file. The original shall be filed at the end of the month, and the remaining copies discarded.

308. MONTHLY LABOR SUMMARY, FPI FORM 19

1. Introduction. Direct labor is time spent in the actual production of a finished product or that is immediately identifiable with product costs. Actual direct labor costs will be accumulated and controlled by job or process to determine such actual costs for pricing and production decisions.

The Monthly Labor Summary, FPI Form 19, based on information from timekeeping records, enables daily recording of accumulated direct labor hours and costs by job. The form is only required for factories using standard hourly and group piece rate pay systems. The form shall be used for recording all direct factory labor costs. If department labor costs within each factory are desired, a separate form for each department by job will be used.

A sample FPI Form 19 is displayed in Exhibit 3-N.

2. Responsibilities. The Business Manager is responsible for preparing the Monthly Labor Summary. Essentially, the hours worked on each job are accumulated on timekeeping records under the control of the Factory Manager. These records specify the quantity of work done by grade on each job.

Each day Business Office personnel total the hours worked by grade on each job for the previous day, and post this information to the Monthly Labor Summary. At the end of the month or at completion of the job, the hours per grade are totaled and are costed using a standard wage rate for that grade or a group piece rate as applicable.

These totals serve as the source of direct labor cost information to be posted to the Production Order and Cost Sheet, FPI Form 9. (See paragraph 306.) They provide data for management review and evaluation of actual costs, as compared to planned costs, and the efficiency of factory foremen in controlling this FPI resource.

3. Preparation. The following instructions shall be utilized in completing the form. Alphabetical letters are references to letters on illustration of the form, Exhibit 3-N.

8000.1
Chapter 8500
Page 8506.3-50
CN-15
August 24, 1983

Exhibit 3-N
Monthly Labor Summary,
FPI Form 17

<u>Block</u>	<u>Explanation</u>
a. <u>Factory.</u>	Name of factory.
b. <u>Job/Dept.</u>	Job Number. For process system, enter Department name.
c. <u>Month.</u>	Month being summarized.
d. <u>Date.</u>	Calendar day of the month being posted.
e. <u>Grade/Hours.</u>	Total number of hours worked that day in each grade. For each hour of overtime worked, add one hour to the number of regular hours worked on that date, in each grade.
f. <u>Total Hours (per day).</u>	Total hours worked on the job for the day. This amount will be the total of the hours worked for all pay grades. Remember to allow for overtime as provided for in the instruction for Block E. This will reduce any required reconciliation that may be required at the end of the month.
g. <u>Total Hours (by grade).</u>	Add all entries in each Column E. Total hours worked on the subject job for the month by grade.
h. <u>Total Hours (all grades).</u>	Total hours worked on the subject job for the month. Verify total by adding total hours for each grade, block (G).
i. <u>Pay Grade Rate.</u>	Approved standard or group piece rate for 1st, 2nd, 3rd, and 4th grade pay. Business Office will determine each rate of pay as provided in Section 8511, Payroll.
j. <u>Total Cost (by pay grade).</u>	Block G x I for each pay grade.
k. <u>Total Cost.</u>	Add all Block J amounts. Bring forward to Production Order and Cost Sheet, FPI Form 9.

309. DEFECTIVE WORK/SCRAP REPORT, FPI FORM 31

1. Introduction. Control of scrap and rework includes identification of the defective material as early as possible in the

production process, proper disposition as to scrap or rework, and proper documentation and accounting of the costs involved. An explanation of the controls and accounting for defective work and scrap is in paragraph 406.

The Defective Work/Scrap Report, FPI Form 31, shall be used to report all significant defective work and abnormal scrap as defined in paragraph 406.4. The report includes information on the nature and cause of defects, disposition instructions, corrective action and estimated and actual rework/scrap costs. The form serves as a rework authorization and summary of costs. Upon completion, the FPI Form 31 should be used as an aid in the analysis of the job. Copies shall be maintained by the Quality Assurance, Factory and Business Manager.

A sample FPI Form 31 is displayed in Exhibit 3-0.

2. Responsibilities.

a. The Quality Assurance Manager is responsible for developing guidelines for identifying significant defective work and abnormal scrap for each of the product lines in their factories. The QA Manager is also responsible for initiating the report, identifying the cause and recommending disposition. He will also accumulate and analyze these reports monthly notifying the Superintendent of Industries of key problem area.

b. The Factory Manager is responsible for approval and documentation of any rework to be accomplished and to take action to prevent recurrence of a similar problem. The rework decision is a matter of judgment that can be based on cost comparison as well as subjective criteria such as customer relations. However, the cost effectiveness of the decision should normally be the primary consideration.

c. The Superintendent of Industries is the reviewing authority.

d. The Business Manager is responsible for accumulating and recording costs on this form and the Production Order and Cost Sheet, FPI Form 9.

8000.1
Chapter 8500
Page 8506.3-53
CN-15
August 24, 1983

Exhibit 3-0
Defective Work/Scrap Report,
FPI Form 31

3. Preparation. The following instructions shall be used in completeing this form. Alphabetical Block letters are references to corresponding Blocks on the form in Exhibit 3-0. The department responsible for completion of each block is identified in parentheses at the endo of each explanation. The use of the FPI Form 31 is summarized in the flow chart, Exhibit 3-P.

<u>Block</u>	<u>Explanation</u>
A. <u>Factory</u>	Name of Factory involved.
B. <u>Date.</u>	Date of report. (Quality Assurance (QA)).
C. <u>No.</u>	Number of report. Assigned by Quality Assurance Supervisor. Numbering system should be consistent and provide different series for different factories in multiple factory locations. (QA)
D. <u>Department Responsible.</u>	Production department responsible for defective work. (QA)
E. <u>Job Order No.</u>	Job order number on which defective work is discovered. (QA)
F. <u>Nature of Defect.</u>	Short statement identifying nature and extent of defect. (QA)
G. <u>Cause of Defects.</u>	List cause(s) or defect to the extent possible. If further study is required, so state. Include action taken to prevent recurrence. (QA). (Continue on reverse, it necessary)
H. <u>Estimated Cost.</u>	Estimated cost of rework or replacement to include material labor and overhead.
I. <u>Disposition.</u>	Check (X) whether defective work should be reworked, scrapped for salvage value, or disposed of as waste. (QA).

8000.1
Chapter 8500
Page 8506.3-55
CN-15
August 24, 1983

Exhibit 3-P

<u>Block</u>	<u>Explanation</u>
J. <u>Corrective Action</u>	Action taken by Factory Manager to prevent recurrence. (FM)
K. <u>Initiated.</u>	Initial of Quality Assurance Manager. (QA)
L. <u>Approved.</u>	Signature of Factory Manager indicating approval and review of report. (FM)
M. <u>Description of Work to be Done.</u>	Describe addition rework required, including amounts of material and labor that will be required. (FM)
N. <u>Dept. No.</u>	Department number or name where rework is to be done. (FM)
O. <u>Material (Costs Incurred)9</u>	Material costs of rework. Obtained from copy of FPI Form 49 maintained in job order file. (Business Manager (BM))
P. <u>Labor Hours.</u>	Direct labor hours spent of rework. (BM)
Q. <u>Labor Cost</u>	Cost of labor spent on rework. Obtained by multiplying applicable labor rate x hours. May use actual rates or average. If rework is being done on a job that has already been completed, all labor costs after the job is reopened would be rework costs. These costs should be determined from the Monthly Labor Summary, FPI Form 19. However, if a job is still open, rework and normal labor hours would be mixed on the Monthly Labor Summary and an average labor rate would be more practical to use in determining labor rework costs. (FM)
R. <u>Overhead</u>	Manufacturing (overhead) expense is determined by multiplying the overhead base (labor cost) by approved factory overhead rate. (BM)
S. <u>Total Cost.</u>	Total of O, Q, and R. (BM)
T. <u>Reviewed.</u>	Signature of the Superintendent of Industries indicating approval. Also, enter data of signature.

PART 4

ACCUMULATION AND CONTROL OF MATERIAL COSTS

400. INTRODUCTION

Job and process are the principal costs systems. For those systems, either actual or standard costs can be allocated to production. All cost systems revolve around three basic cost elements: direct materials, direct labor, and overhead expenses.

UNICOR'S primary forms for accumulating data regarding those cost elements have been identified and explained in Part 3, Production Cost Forms. The relationships of those forms to the basic cost elements, data needs, and accumulation methods are discussed in this Part 4, Accumulation and Control of Material Costs; Part 5, Accumulation and Control of Labor; and Part 6, Accumulation and Control of Overhead Costs.

401. DEFINITION OF CONTROL OF MATERIAL COSTS

Material control is a process of systematically accounting for materials. Material control, as discussed in this Part, will apply to the charging of raw materials to the job through work in Process to Finished Goods Inventory. Controls governing procurement of materials, their receipt in inventory, and shipment from Finished Goods are discussed in Section 8509, Inventory.

402. PURPOSE OF MATERIAL CONTROL

Some of the purposes of material control for cost purposes are to assure:

- Material is charged to jobs in actual quantities, and the charges are consistent with costs estimates.
- Adequate care of materials after delivery to the production area, whether in original form or during various stages of production.
- Adequate control and documentation of defective work and scrap.

403. RESPONSIBILITIES

1. Factory Manager. Primary responsibility for material control in production activity rests with the Factory Manager. His/her main responsibilities are to assure:

- No materials enter production without proper documentation (Stores Requisition and Transfer, FPI Form 49).
- No material requisitions in excess of the Material Control List, FPI Form 48, requirements for a job, shall be approved unless justified by documented proof of loss, damage, or increased production requirements. See paragraph 307, Stores Requisition and Transfer; and 309, Defective Work/ Scrap Report.
- Accountability of transfer of materials between departments.
- Control, identification, and reporting of scrap and rework (Defective Work/Scrap Report, FPI Form 31).

Factory Managers may assign their responsibilities to factory foremen, provided they are able to maintain the controls necessary to insure compliance.

2. Quality Assurance Manager. The Quality Assurance Manager's primary responsibilities are to:

- Inspect various phases of the production cycle for compliance with established specifications of the product.
- Identify non-conforming products and assist the Factory Manager in determining whether to rework or scrap.
- Initiate a Defective Work/Scrap Report, FPI Form 31, for products to be reworked or scrapped. See paragraph 309.

3. Business Manager. The Business Manager's primary responsibilities related to materials are to:

- Comply with FPI inventory management requirements, including accounting for all materials received, stored, issued, and returned to the warehouse; providing for physical inventories; and assuring protection while they are under his/her control.

- Record the consumption of materials by jobs and processes.
- Compile and analyze data regarding items received, on hand, and consumed including production variances for estimates.
- Establishing procedures to account for shop stock, wherever such an account is authorized.
- Perform other necessary accounting functions such as journal entries, ledger postings, reconciliations, reports, and advising.
- Acquire needed items for stock or production.

404. IMPLEMENTING CONTROLS

Implementation of material controls in the UNICOR cost system is designed not only for accountability of each item requisitioned and put into process, but also to establish a series of checks and reviews to assure that these materials become a part of finished goods or are otherwise identified as to disposition. These controls are primarily identified in the discussion of production forms in Part 3. The remaining paragraphs in this Part 4 concern unassigned material, defective units and scrap, packing and storing, and other material costs.

405. RAW MATERIAL-SHOP STOCK (ACCOUNT 20.4)

Occasionally, materials in excess of the immediate requirements must be drawn. This situation may arise when the nature, size, or type of material dictates that the exact quantity required cannot be requisitioned or when material is required to be processed in some manner prior to being assigned or distributed to an individual job. Establishment of this account requires approval of the Product Division and Resources Division Managers.

1. Accounting for Shop Stock. Account 20.4, Raw Materials-Shop Stock, items will be stored in a storage facility under the control of the Factory Manager. Stock cards will be maintained by the Factory Manager for each item. Subsidiary General Ledger stock records will be maintained by the Business Office for each item.

a. Job System. Job system shop stock will be processed by use of a Store Requisition and Transfer, FPI Form 49. Procedures for processing issues to or from unassigned materials by use of FPI Form 49 are described in paragraph 307 of this Manual. Basically, this system

will function the same as the inventory system for raw materials, except that the Factory Manager is responsible for control. This stock shall be inventoried monthly by the Factory Manager. FPI Form 63 or local forms shall be used to document the inventory. Any differences shall be reported to the Business Manager for inventory adjustment.

b. Process System. Process system issues to shop stock will be by FPI Form 49, processed as described in paragraph 307.

A monthly inventory will be performed by the Factory Manager. Credits to the shop stock account will be determined based on the results of that monthly inventory. Credit to the account will represent the value of beginning balance, plus issues, minus ending inventory. Charges to the job being transferred from shop stock will be based on established standards. These standards shall include allowance for normal scrap and defective work units. Any differences between the material standards applied to the jobs and the actual usage for the month from shop stock shall be charged to Cost of Sales-Abnormal Costs, Account 56.3.

2. Periodic Review and Inventory by Business Manager. The Business Manager is responsible to perform a semi-annual inventory and review of shop stock. The inventory will be recorded on FPI Form 63 and processed according to instructions in Section 8509, Inventory. Any items in the inventory not currently being used, or not having an early anticipated use, shall be repackaged, properly marked as to contents, and contra requisitioned to Raw Materials Inventory, Account 20.1.

406. SCRAP AND DEFECTIVE WORK

1. Definitions

a. Defective Work. Defective work is production that does not meet product specification or quality standards. It may be (1) reworked and brought up to standard by the application of additional material and labor for sale as firsts or seconds; (2) taken out of process and reclaimed for use in another size or form; or (3) sold for scrap value.

b. Scrap. Scrap is material residue from manufacturing operations that has measurable, but relatively minor, salvage value. For example, outlined metal from a stamping operation, and shavings and short lengths from woodworking operations. Scrap will be sold in accordance with FPMR Regulations (Title 41, Part 101-45, of the Code of Federal Regulations).

c. Waste. Waste is material from manufacturing operations that cannot be used, has no salvage value and must be thrown away.

2. Material Losses Outside Production. Material losses also occur outside the production process. Material losses due to excessive warehouse handling, shelf life expiration, evaporation, natural deterioration, etc., shall be charged to Manufacturing Expense Control-Damaged/Obsolete Property (Account 57.14). Material losses due to such things as fire and flood shall be charged to Extraordinary Loss (Account 78) as outlined in Section 8509, Inventory.

3. General Procedures. Control and accountability of defective work in an important part of the production planning and control system. Most manufacturing processes generate some bad units along with acceptable units as an unavoidable or inherent result of production. The cause of losses in this area should be identified and every effort should be made to keep the cost of defective work as low as practicable through improvements in operating procedures, changes in machine design, use of different raw materials, etc. Each factory is required to identify, control and account for the cost of defective work. Management must insure that the incidence of defective work is controlled within predetermined limits. The methods prescribed in this section for identifying, controlling, and accounting for these costs are preferred. However, any method that provides the desired information and internal controls is acceptable if approved by the Product and Resources Divisions Managers.

4. Control. The goal of a system to control the cost of defective work is to identify and control those costs as early as possible in the production process. Key elements of such a system are:

- Effective production planning and schedule to insure the most economical combination of the factors of production.
- A material control system to monitor the usage of materials during the production process.
- An effective quality assurance program to identify and report defective work, make determinations as to whether the work shall remain in process for rework or be scrapped, and to recommend immediate action to improve/correct the operation.

Each of the elements is dependent upon the other to successfully identify and control these costs.

Effective control is also required over decisions to rework defective units to insure that such rework is more economically advantageous than salvage. Where expected costs of rework are expected to be significant, the Quality Assurance Manager shall initiate a Defective Work/Scrap Report, FPI Form 31. What is significant defective work or

abnormal scrap can vary between products and factories and identifying it is a matter to judgment. Materiality is the key factor. For example, \$25 in expected rework costs would not be significant for a \$750 desk but would be for a bedside cabinet costing \$75. A 25¢ rework charge is not significant in itself but a 25¢ rework charge on 10% or each locking cord fastener (cost - 50¢) inspected during a day would be significant.

The Quality Assurance Manager should develop guidelines for each of the product lines in a factory defining the points at which a Defective Work/Scrap Report, FPI Form 31 would be initiated. A general guideline that can be considered is the lesser of \$100 or 10% of the estimated cost for the unit involved. However, no one guideline will apply to all types of products and factories in UNICOR. A suitable guideline applicable to specific products/factories needs to be developed.

5. Accounting

a. General. Controlling and accounting for the costs of defective work require distinguishing between normal and abnormal or excessive costs of defective work.

Normal costs of defective work are those which management expects or accepts during a job or production run under efficient operating conditions. Examples would be losses due to mishandling, worn dies, inferior materials, operating error, etc., which are within limits that are expected by management. These costs are considered inherent to a job or process and shall be included as part of the costs of that job or process.

Abnormal or excessive costs of defective work are those which are not expected to arise under efficient operating conditions and are not an inherent part of the job or process. Abnormal costs are considered to be controllable in the sense that the first line supervisor is expected to develop efficiencies in production that limit defective work to predetermined tolerances. They are caused by the same operating factors as normal costs; however, abnormal costs signify a greater than expected rate of occurrence. These costs are to be considered a period expense and charged directly to Cost of Sales-Abnormal Costs (Account 56.3)9

The distinction between costs of defective work chargeable to jobs and abnormal costs, in many cases, is a matter of judgment. The usage or need for materials in excess of those allowed on the Material Control List, FPI Form 48, should be an indicator to the Quality Assurance Manager and Factory Manager that material usage is exceeding expected limits for that particular operation. Jobs identified to the Business Office on the Defective Work/Scrap Report, FPI Form 31, must

have the excess costs identified and accumulated and recorded on the FPI Form 9 and 31 for charge to Manufacturing Variance-Abnormal cost (Account 58.1).

b. Sources. Defective units will normally be generated from four sources:

- Due to special circumstances such as design change, substandard material from vendor, deficient customer specifications, etc.
- During production due to planning or production inefficiencies.
- As a result of Finished Goods Inventory inspection.
- Customer return.

The Defective Work/Scrap Report is a source document for the identification and costing of rework on defective units. Details for the use and preparation of this form are contained in paragraph 309.

c. Deficient Customer Specification. Defective units can result from deficient customer specification/instructions. UNICOR can recover excess costs in these cases and action shall be taken to obtain price increase from the customer to cover the cost. Rework costs shall be identified on a Defective Work/Scrap Report, FPI Form 31, which will serve as the basic document for initiating a request for a higher price or reimbursement for that job. Rework shall not be initiated until customer approval of increase cost or Product Division authorization is received. All additional costs will be charged to the job.

d. Substandard Raw Material from Vendors. Defective units can result from substandard raw materials supplied from a vendor. Abnormal losses due to excessive imperfections or material specification deficiencies will be reported by the Quality Assurance Manager on a Defective Work/Scrap Report, FPI Form 31 (Exhibit 3-0). The report shall be forwarded to the Business Manager and should identify the nature of the defect and the reason for rejection. The Business Manager shall notify the procurement agent of any substandard material who shall then be responsible for obtaining credit or replacement for the defective materials. Every effort shall be made to obtain reimbursement from the vendor for all rework costs associated with the substandard material including labor and overhead.

The costs associated with substandard raw materials are not considered to be inherent to the job and will be credited to Work In Process (Account 18), and debited to Raw Materials and Supplies-Defective Material (Account 20.2), through JE 12 pending disposition of the defective materials.

e. Deficient Planning or Production. This refers to defective work generated by planning or production inefficiencies such as machinery breakdown, preparation, tooling, worker productivity, etc. The units affected are normally identified during the production process by Quality Assurance personnel and documented on the Defective Work/Scrap Report, FPI Form 31. See paragraph 309.

The cost of material will be determined by the actual material requisitioned to replace the defective units. Labor and overhead losses related to the defective units can be determined from data accumulated on the FPI Form 9 and analysis of the FPI Form 58 for the product.

From these, it will be possible to make a reasonable determination of the labor and overhead costs that should be charged to the defective work.

The costs associated with defective work generated by deficient planning or production are not considered to be inherent to the job and will be charged to Cost of Sales-Abnormal Costs, Account 56.3.

f. Defective Work Returned From Customers. Customer returns of defective finished goods which are to be reworked shall be inspected by the Quality Assurance and Factory Managers upon receipt. The Quality Assurance Manager shall initiate a Defective Work/Scrap Report, FPI Form 31, for all significant rework costs as determined by paragraph 406.4. It shall include a determination of the material, labor and overhead costs that will be required. The Business and Factory Managers should be utilized in making this determination. The original cost can be obtained from the Shipping Order, FPI Form 8. The FPI Form 31 must be prepared within three working days of receipt of goods.

A Receiving Report, FPI Form 11, can now be prepared for the defective items. It shall be prepared within one day of receipt of the defective items. If a FPI Form 31 is required, the receiving report shall be prepared within 1 day of completion of the FPI Form 31. Any excess costs shall be debited to Cost of Sales-Abnormal Costs, Account 56.3. The original cost of sales less any charges to Manufacturing Variance or Other Expense shall be debited to Raw Materials and Supplies-Defective Material, Account 20.2. The total of these costs shall be credited to Cost of Sales, Account 56.1 or 56.2 as appropriate.

A journal entry (JE 22b) must also be prepared to adjust sales and reduce receivables or establish liability as appropriate. The selling price of returned goods shall be debited to Sales Return for Rework, Account 54, and credited to Accounts Receivable, Account 10, if the sale is still a receivable, or Accounts Payable, Deferred, Account 70.5 if payment has already been received.

The defective units shall be put into production under the original job number and charged to Work-In Process Material, Account 18.1, at the value at which the job was put into Raw Material and Supplies-Defective Material, Account 20.2

All additional costs incurred will be charged to Work-In-Process Inventory as in normal costing procedures. Prior to the transfer of the reworked products to Finished Goods Inventory, any significant rework costs in excess of those estimated on the Defective Work/Scrap Report, FPI Form 31, shall be charged to Cost of Sales-Abnormal Cost, Account 56.3, through JE 18a. All costs of rework shall also be documented on the Defective Work/Scrap Report, FPI Form 31. See paragraph 309.

Example: A desk is returned for rework. It had been sold for \$400 with a cost of sales of \$350. The Quality Assurance, Business and Factory Managers estimate rework costs at \$100. Accounting entries for this example would be as follows:

JE-8a

DR 20	Raw Material and Supplies .2 Defective Materials	\$250
DR 56	Cost of Sale Control .3 Abnormal Costs	\$100
CR 56	Cost of Sale Control .1 Sales to other Government Agencies	\$350

JE-22b

DR 54	Sales Return for Rework	
	.1 Rework - Other Government Agencies	\$400
CR 10	Accounts Receivable Control	
	.1 Accounts Receivable - Government	\$400

407. PACKING AND STORAGE COSTS

1. Containers and Lashings. Packing containers are normally controllable and identified to a specific or process and should be charged to the job as a direct material. Lashing which comes in bulk or bales and is merely used for protective wrapping such as cardboard, wrapping paper, twine, stacking skids, etc., should normally be considered indirect material and charged to Account 57.31, Packing and Shipping Expense.

2. Special Customer Requirements. Special packing, which is required to meet special customer requirements, shall be included in the Unit Cost Estimate, FPI Form 73, and charged to the job or cost projective. For example, a locker requiring extra protective wrapping for overseas shipment shall have packing and crating costs charged to the job as direct material/labor/overhead.

3. Multiple Charges. In certain circumstances, it may not be practical to charge packing cost to a job. Examples are combining several components produced on various jobs or removal of several finished goods items from stock to be packed as a unit to meet a customer request. Such costs shall be charged to Account 57.31, Packing and Shipping Expense.

408. MANUFACTURED COMPONENTS (SUB-ASSEMBLIES)

A manufactured component is a part of a product manufactured by UNICOR to be subsequently installed as an integral part of a main unit or assembly. These components shall be manufactured under a separate job order issued internally. Completed components or sub-assemblies will be charged to Raw Materials Inventory (Account 20.1) on the summary of Work In Progress, FPI Form 51. (See paragraph 1103)

409. SPECIAL TOOLING

If a customer inquiry order requires special tools, dies, jigs or fixtures, and such equipment is to be purchased or manufactured, these costs shall be included in the Unit Cost Estimate for the product.

In scheduling the production, the Factory Manager shall issue a separate sub-Production Order and Cost Sheet, FPI Form 9, to cover the production of these items. He/she will assign such job immediately following receipt of the work order(s) for the product itself.

Once completed a proportionate amount of these special equipment costs will be charged to the products transferred to Finished Goods, based on anticipated production at the end of each month. This will be done so that Work in Process Inventory, at the end of the month, includes the remaining costs of the special equipment applicable only to the uncompleted orders anticipated order for the product itself.

If it is determined that the special tools, dies, etc., are to be utilized on recurring jobs, the Division Manager, upon request of the Superintendent of Industries, shall authorize such equipment to be recorded as a deferred expense in lieu of being charged to the initial job. The deferred charge should be amortized based on usage. If the tools, dies, etc. are of substantial value, however, and expected to have at least a three-year life, they should be capitalized and normal depreciation guidelines applied.

410. EXTERNAL PRODUCTION WORK

In those instances where a factory does not have the resources to handle certain phases of the production process, the cost of having such work completed by contract services or other UNICOR factories shall be charged as a raw material cost.

For example: dyeing, plating or other finishing work. Effective control must be established for these units pending their return from the outside contractor. Upon completion of such work, the product involved shall be returned to Work-In Process or Raw Materials Inventory, depending on usage requirements for the material.

In contracting for production work, the purchase agreement must give consideration to damage of products by the supplier of the contract service. Generally, an allowance can be made for a minimal number of damaged products. However, excess damage should be charged to the supplier. Accounting for the cost of contract service must include value of damaged products as well as the cost of the contract service.

Any excess damage should be applied as a reduction in the contract cost of the service supplied. For example, production work involving cost to date of \$1,000 and a contract price of \$500 for finishing work resulted in ten percent of the products being damaged to the extent that the products could not be sold to UNICOR customer. UNICOR's contract with the outsider made an allowance for damage of one percent. Upon return of the products from the outside contract, the UNICOR Form 9 "Production Order and Cost Sheet" would be updated. A cost increase of \$350 (\$450 for the contract service on good units completed (500 x 10%) less a \$90 credit for excess damage (units worth \$100 damaged less \$10 for the allowance for damage). Unvouchered receipts account 70.3 would be credited for the \$360 and Work-In-Process Materials, Account 18.1 debited for \$360.

411. RESEARCH AND DEVELOPMENT COSTS (PROTOTYPES)

1. Definition. Research and Development (R&D) is a planned program directed toward the search for new products, new manufacturing techniques, improving existing products, solving technical problems, or expanding general knowledge within the various product lines.

2. Authority. The Product Division Manager has the authority to initiate a research and development project or the manufacture of a prototype not to exceed \$10,000. Any R&D project with an anticipated cost in excess of \$10,000 will be forwarded to the Deputy Associate Commissioner by the Product Division Manager with the appropriate project design blue prints, cost estimates, etc., for approval.

3. Accounting. The costs incurred for an R&D project can generally be deferred and amortized if they can be specifically identified with future revenues. To defer the costs of pure research or unsuccessful research projects which cannot be identified to future revenues would distort the balance sheet and the income statement and should be expensed to factory or divisional expense as incurred.

Recommendations as to accounts to be used and whether the associated costs shall be expected or amortized shall be developed by the Business Manager at the project location in accordance with the guidelines of this paragraph 411. They shall then be forwarded to the Product Division and the Resources Division for review and approval.

4. Procedures. Cost accumulation for an R&D project or the manufacture of a prototype will be accomplished like an ordinary job. A job order number will be assigned upon receipt of a project number or a written authorization from a Product Division. Material, labor, and manufacturing overhead will be charged to all manufactured prototypes and summarized monthly on the FPI Form 51, Summary of Work-In-Process.

(See paragraph 1103.) Travel and shipping expenses incurred that are related to the program shall be charged to the prototype.

Costs of completed prototypes determined to have future benefits in terms of service or earnings shall be charged to Deferred and Prepared Expense Control, Prototype Products, Account 40.2. An Equipment Card, FPI Form 13, shall be prepared for each prototype. Information recorded on that form shall include a full description of the item, reference for manufacturing authorization, date of manufacturing, location, and total cost. Prototypes shall not be depreciated.

Cost determined to have no future potential for earnings shall be expensed to Selling Expense Control-Experimental Expenses, Account 64.11, if related to a specific factory.

411.4 The Product Division may authorize transfer of these costs to the division through Account 97 chargeable to Product Division Expense-Experimental Expense if the expense is applicable to several factories.

Shipments of prototypes to a designated inspection point (e.g., Central Offices, Division Office, or customer) will be accomplished using an X-Snipping Order, FPI Form 8. No accounting entries are necessary, but the location and date of shipment shall be noted on the Equipment Card, FPI Form 13. Equipment Cards shall be reviewed quarterly to determine the current status of the prototype.

The Product Division Office will notify the factory if the customer accepts the prototype. The customer shall then be billed for the selling price of the item per a customer contract or Product Division written instructions. Deferred and Prepared Expense Control-Prototype Products, Account 40.2, shall be credited for all costs associated with the prototype. Cost of Sales Control, Account 56, shall be debited for a reasonable or production run cost of the item being sold. Any related costs remaining in the prototype Product Account for developing, engineering, and researching the prototype may be:

- If significant, left in Deferred and Prepaid Expense Control, Account 40, and amortized proportionately over early production runs until all of the costs have been absorbed.
- Charged to the initial production job immediately if remaining costs are considered to be minimal.
- Charged to current overhead expenses of the Product Division if the costs are applicable to several factories in the Division.

- If these costs are significant they shall be redistributed to all applicable factories for amortization. If this option is used, the Product division shall insure that these costs are considered when determining selling price.

412. MINIMUM BUY

There are instances where excess materials procured for a job remain after its completion. Examples are vendor requirements to buy in a minimum quantity which is in excess of actual needs or buying a small percentage over actual requirements to insure against inherent production losses. In these instances, the entire cost of the total quantity purchased will be charged to the job. Excess material generated by vendor minimum order requirements for which the customer was charged shall be shipped to the customer if he desires and if so stated in the contract.

Excess material generated in these instances will be evaluated for probable future use. Any unwanted materials shall be discarded as waste or sold for salvage value as applicable. Materials that are to be retained that are immaterial in value or volume may be added to current stock control card balances at no cost.

Significant items that can be identified against a valid current of future need shall have a value assigned through Account 97, Washington Control at no less than 75% of current value and added to the current stock control card for the item.

If significant amount (volume or value) of material is retained and there is no current requirement for it, it shall be placed in Account 20, Raw Materials & Supplies Control at no value. Separate stock control cards will be maintained by quantity only for control purposes. Any of this material required for use or identified for use against a valid customer order within one year may be retained. This material required shall have a value assigned as donated material through Account 97, Washington Control purposes. Any of this material required for use or identified for use against a valid customer order within one year may be retained. This material required shall have a value assigned as donated material through Account 97, Washington Control at no less than 75% of current value and added to the current stock control card for the item.

Any material for which no need is established within one year shall be processed for disposal in accordance with Federal Property Management Regulations (Code of Federal Regulations, Title 41, Part 101-43). An inventory of these items will be submitted to the Resources and Product Division at the end of each fiscal year to include description, quantity and estimated value.

413. BY-PRODUCT COSTING

By-products are products or materials with relatively minor value that result during the manufacture of a main or larger product. Example: the off-fall from the manufacture of a desk top or steel upright can be used to make a drawer front or corner brace. In general, by-products have relatively more value than if they were scrapped, and require further processing before they can be used. The materiality or significance of the dollar value or volume of the item compared to the end unit being processed influences the accounting treatment to be used.

By-products that are saved or further used as a normal part of production of a main product shall have their costs transferred from that product to the product on which they are to be used. Example: each time table tops are cut, the off-fall is used to make drawer facings. Since this is the planned and intended use for the cuttings, their cost shall be transferred to that job.

By-products from a product that are only used when a requirement exists for the by-product may be handled in several ways.

- If the volume or dollar value of the by-product is significant relative to the total cost of the item to be made from it, the cost of the by-product material shall be transferred through JE-12 to the job on which it is used. Any costs transferred from a product that are a planned part of the product's cost structure and normally included in its costs shall be noted on the back of the FPI Form 9 to insure pricing and cost analysis actions are not influenced by this transfer.

PART 5

ACCUMULATION AND CONTROL OF LABOR

500. PURPOSE

Cost accounting for labor has two primary objectives beyond documenting payment of inmate workers. It seeks to (1) determine labor costs of products/services, and (2) report labor costs for management planning and control.

It is important to determine labor costs for products/services in order to have a valid basis for evaluating production efficiency. To obtain the most effective control of labor costs, FPI accumulates labor hours as incurred and charges them directly to the manufacturing process or job. These costs are then compared to labor standards for each product to highlight labor efficiency and guide management in planning for actual labor costs in the future.

501. CLASSIFYING DIRECT AND INDIRECT LABOR

Direct labor is that which can be readily identified with a specific job or process (w.g. grinder, assembler, or welder).

Production labor which cannot be readily traced to a job, or work performed in support of production is considered indirect labor (e.g., time of receiving clerk, warehouseman, accounting clerk, supervisor, or maintenance).

Care shall be taken not to classify a position indiscriminately as direct or indirect. Some positions may alternate between the two classifications depending upon the size or time factor of a job (e.g., quality assurance inspector, forklift operator and packaging). Packaging for one product may be an indirect cost and for others, a direct cost. A guideline that can be used in making the determination is the classification that it was given on the Unit Cost Estimate, FPI Form 73, and the Labor Estimate/Time Study, FPI Form 58, for that job.

There are several time periods during the work day that are not spent directly on production but are essential to production effort and shall be charged as direct labor. These include start up time, tool issue, coffee breaks, clean-up and material handling. These events are routine and should be charged as direct labor. New employees, while developing their skills and considered in on-the-job training, shall be considered as direct labor.

502. ACCUMULATING AND ACCOUNTING

1. Requirements, General. Direct labor cost is the primary base used by FPI in allocating overhead costs. It is essential that direct labor costs associated with each process/job be as accurate as practical. For this reason, FPI factories will accumulate and report actual labor hours for both job order and process cost systems.

Factories on individual or group piece rate pay systems will accumulate and report unit production and hours as required by the particular pay system being used (see Section 8511). The initial recording of this information is the most important step in our labor cost accounting system and is the responsibility of the Factory Manager. Proper segregation between direct and indirect labor is important because, as mentioned above, factory overhead will normally be applied as a ratio to direct labor cost. Unless the distinction between direct and indirect labor is clearly made and consistently followed, serious errors in overhead allocation can result. Failure to properly classify these costs not only misstates the labor cost used as an overhead application base, but also incorrectly increases or decreases the total overhead which must be applied.

The department foremen are responsible for accumulating and verifying the accuracy of labor information reported. Once the labor information is accumulated, it is forwarded to the Business Office. The Business Office uses the information to (1) document payments to inmate workers (see Section 8511, Payrolls); (2) apply overhead to each job (see paragraph 605, this Manual); and (3) report labor cost on the Monthly Job Labor Summary, FPI Form 19 (paragraph 308).

The Business Office shall establish checks and balances on the payroll documentation to insure the accuracy and validity of payroll and cost data. (See Section 8511, Payroll.) These measures shall include:

- Reconciliation of hours reported on Door Check Sheet, FPI Form 6, against Inmate Daily Time Tickets, FPI Form 40, or foreman's summary of work performed. This should be accomplished using random sampling techniques.
- Reconciliation of Payroll Cards, FPI Form 93, against total of indirect and direct payrolls. This shall be accomplished monthly but can be done several times each month to insure accuracy of jobs closed during the month and to improve the efficiency of monthly reporting.

- Review of reasonableness of direct labor costs remaining in Work-In-Process by comparing labor costs entered on the Production Order and Cost Sheets, FPI Forms 9, with labor standards for that job or process. This can be accomplished by comparing Factory Manager estimates of percentage of job completion with the data for the product listed on the Summary of Labor Rates, FPI Form 58. Any variations of plus or minus 10% from these standards should be brought to the attention of the Factory Manager. Abnormal or excessive labor costs shall be charged to Cost of Sales Control-Abnormal Costs, Account 56.3 through Journal Entry 18. Excess labor costs due to a change in process or erroneous labor estimates shall be charged to the job, and the Labor Estimate/Time Study, FPI Form 57, the Summary of Labor Rates, FPI Form 58, and the Unit Cost Estimate, FPI Form 73, shall be revised as required.

2. Accounting. Direct labor shall be accrued to the job in Work-In-Process Inventory-Labor in Process, Account 18.2, and indirect labor to Overhead Expense Accounts Labor Indirect Inmate, Account XX.05, through Journal Entry 10. Overhead expense is applied to Work-In-Process, Inventory-Overhead in Process, Account 18.3, through Journal Entry 17. Upon completion of units, costs are transferred to Finished Goods Inventory through Journal Entry 18. Analysis of the variances between actual and applied overhead is made monthly on the FPI Form 3.

3. Standard Payroll System. The system used to obtain the labor data can be one where inmate workers maintain their own time tickets or the department foreman can keep the time records for all workers in the department. Inmate workers, who keep their own time tickets, will use a form similar to FPI Forms 40, Inmate Daily Work Report, 40-A, Inmate's Daily Piece Work Report; or 40-B, Daily Time Ticket. Exhibit 5-A is a sample of a labor accumulation system that may be used. Each worker shall be advised of his responsibility for reporting accurate total time and activities each day. Pay rates used will be those authorized in the Payroll Section, 8511.

4. Individual Piece Rate System. The system used to obtain labor data can be used in several ways depending upon the particular operation. The number of pieces produced can be monitored at the entry or exit point of an operation. The forms used to record other data should be locally developed so as to insure their applicability to the system in use. Essential elements of the system must be controls and checks to insure the validity of production being credited to each worker. Pay rates will be established in accordance with paragraph 303, Labor Estimate/Time Study, of this Manual, and Section 8511, Payroll.

8000.1
Chapter 8500
Page 8506.5-4
CN-15
August 24, 1983

Exhibit 5-A

5. Group Piece Rate System. The data used to determine group pay rates may be based on production units or dollar value. These totals may be computed as completed units or equivalent units produced, as established by management personnel. Time required to complete a unit shall be established in accordance with paragraph 303 of this Manual. Instructions outlined in subparagraph 502.3, Standard Payroll System, may be used for accumulation of direct hours. The Business Office will determine pay rates for each worker as outlined in Section 8511, Payroll.

503. OVERTIME WAGES

Overtime earnings are composed to two elements: (1) regular straight time pay, and (2) premium pay for work performed in excess of the regular working period.

Normally, overtime premium paid to factory workers is considered manufacturing overhead, indirect labor. This determination, however, will depend upon the nature of the overtime. If no single job is responsible for overtime, even though one is caught by chance in all overtime period, the overtime premium will be treated as a charge to manufacturing overhead. Conversely, if a job is individually responsible for overtime due to a short delivery deadline known when the job was undertaken, it would be justifiable to charge overtime premium directly to that job.

The Factory Manager will notify the Business Manager of any jobs that should be charged with the premium portion of the overtime. The basis for allocating manufacturing overhead to the job, however, shall be on regular straight time pay only. Overtime premium shall not be included in the overhead application base.

504. SETUP TIME

Machinery and equipment must often be adjusted or prepared before a particular operation or job can be started. This setup time is usually easily traceable to an operation or job, and is seldom affected by whether 500 pieces or 5,000 pieces are to be processed.

These setup costs should be treated as direct labor if the cost is significant and can be traced to a job or process. The Factory Manager and the Business Manager shall make the determination on how the costs are to be classified.

505. IDLE LABOR

Basically, the idle labor is lost productive time. Idle labor caused by machine/equipment breakdown and poor production planning is generally considered avoidable. Factory Foremen shall consider this time as direct labor. The time spent in this status and the cause shall be noted on the time ticket or on a separate memo to facilitate costing and analysis of the job by the Business Manager and Factory Manager.

Idle labor caused by lack of business, power failure, and lack of raw materials is generally considered unavoidable. This time shall be charged as indirect labor.

Time spent on training other than on-the-job training will, also, be treated as indirect labor and included in overhead.

Classification of idle labor as avoidable or unavoidable is a matter of judgment. Several of the examples given can be classified either way depending on the cause.

Factory Foreman shall be responsible for submitting a separate time ticket or sheet to the Business Office for all idle time with a brief explanation thereon. These reports should be reviewed and initialed by the Superintendent and the Factory Manager as an aid in avoiding or minimizing idleness in the future.

PART 6

ACCUMULATION AND CONTROL OF OVERHEAD COSTS

600. DEFINITION

Stated simply, overhead includes all of those manufacturing or production costs that have not been classified as direct material or direct labor. They are indirect manufacturing costs that cannot be identified in a practical manner with specific units of production. They are identified in Form 4, Summary of Expense, Exhibit 11-A.

601. CHARACTERISTICS

1. Types. Overhead expenses have characteristics that can be classified as fixed, variable, or semivariable.

a. Fixed Overhead. Fixed costs are not affected by the volume of production activity. They provide plant capability for anticipated production volume and are "constant" costs. Included in FPI's fixed costs are civilian salaries, depreciation, rent, etc.

b. Variable Overhead. Variable overhead costs fluctuate directly with a change in volume. Strictly variable costs would be zero during periods of no production. FPI's factory supplies, royalties, and freight, generally, have variable characteristics.

c. Semivariable Overhead. Semivariable costs vary with the volume of production, but not in direct proportion. FPI's inmate indirect labor, utilities, and vehicle operations have semivariable characteristics.

For convenience, these classifications are illustrated in the diagram below.

OVERHEAD
EXPENSES

FIXED

Civilian Salaries
Labor
Depreciation
Amortization
Operations
etc.

VARIABLE

Factory Supplies

Royalties
Freight

Repairs
etc.

SEMIVARIABLE

Inmate Indirect

Utilities
Vehicle

etc.

2. Analysis and Planning. Understanding and recognition of these overhead account characteristics is essential to accurate operations analysis and budget development. When operations are substantially below factory capacity, the profit or loss factor will be greatly affected by the extent of fixed expenses and control over semivariable and variable expenses. In developing the annualized overhead rates, fixed, semivariable, and variable characteristics of overhead expenses need to be considered to arrive at a meaningful rate.

602. OPERATIONAL EXPENSES

Operational expenses include production overhead expenses and other administrative and general expenses related to the industrial operation.

UNICOR's production overhead include Manufacturing Expense (Account 57), Quality Assurance Expense (Account 61), Warehouse Expense (Account 62) and Business Office Expense (Account 63). These are the major indirect expenses considered in estimating and costing overhead as part of the pricing and cost analysis of products.

Other operational administrative and general expenses may include Selling Expense (Account 64), other Expense (Account 65) and Pre-Industrial Training (Account 66).

603. NON-OPERATIONAL EXPENSE

Non-Operational expenses are those corporate expenses not directly related to production at the factory level and include Support Division Expense (Account 71), Product Division Expense (Account 72), Corporate Administrative Expense (Account 73), Extraordinary Losses (Account 78) and Discontinued Operations (Account 79). Other general non-operational expenses are those for non-industrial inmate training and programs supported by UNICOR and include Vocational Training Expense (Account 75), Vocational Training Experiment Expense (Account 76), and Performance Pay (Account 77).

604. ACCUMULATION OF MANUFACTURING OVERHEAD

1. Ledger Accounts and Entry Sources. Overhead costs accumulated in General Ledger Accounts are further identified in the General Ledger by Sub-accounts such as civilian salaries, inmate labor, etc. (See Chart of Accounts, Section 8501).

The entries to the General Ledger accounts are made monthly based on summaries of voucher register, receiving report register, requisition register, accruals, etc. The principal originating documents for these registers are vouchers, receiving reports, requisitions, depreciation schedules, report of inventory differences, etc.

2. Costs Applicable to More than One Department/Factory.

a. Factory Expenses. In some instances, production overhead expenses may apply to more than one factory. Significant expenditures encompassing more than one factory shall be apportioned to each based on a reasonable allocation basis through the applicable nominal sub-account. Example: cost of paint bought to repaint all factory walls can be apportioned to each factory based on square footage of each.

b. Department Expense. Accumulation of overhead costs by department should be used for factories with substantial differences in the dollar amount of overhead expense required for product lines.

For example, a metal factory has two departments. One department produces machined products and other produces products that only require assembly of purchased raw materials. The machined products require a tool and die support activity, close civilian supervision, expensive machinery with associated high maintenance costs, and substantial and costly factory supplies. Assembly activity, on the other hand, requires substantial low graded inmate direct labor with minimal civilian supervision, minimal use of machinery and factory supplies.

To allocate overhead costs to these dissimilar products at a common rate substantially distorts product costs, and does not provide an acceptable basis for management decision making. Department of product overhead pools with direct or formula allocation of expenditures can assure equity in overhead charges by product.

In the above example, overhead expenses would be accumulated separately for each department or product line--one for machined products, and one for assembly department products. Machined products and assembly products sub-accounts for indirect labor, civilian salaries

and benefits indirect inmate labor; utilities; depreciation of machinery and equipment, and buildings and improvements; and machine repair would normally serve minimum needs. Other overhead costs would be prorated to the departments on a systematically designed allocation basis such as those used for allocating office expenses among factories. Department annualized overhead rates would be established in the same manner as for factories, and those rates applied to departmental products.

c. General and Administrative Expenses. Factory general and administrative expenses are those not directly related to a single factory. Examples are expenses related to the Business Office/Warehouse, and Quality Assurance. None of these costs shall be charged as direct during the month. All costs including civilian salaries and inmate salaries shall be accumulated in one factory's general control account, and proportionately distributed at month-end to applicable factories or departments based on approved distribution formulas through sub-account 38 (Clearing Account). (See paragraph 605.) If distributions are based on different rates for each category of expense, it will be necessary to maintain each of these costs separately, i.e. business office, quality assurance, etc.

The Business Manager should discuss the benefits of accumulating these costs by category with the Superintendent of Industries and individual Factory Managers. If required, the Business Manager shall maintain the costs by these categories for each factory for their review and analysis.

605. DISTRIBUTION OF MANUFACTURING GENERAL EXPENSE

1. Definition. General expenses are those manufacturing overhead expenses not readily identifiable with a particular factory or department.

2. Annual Distribution Formula. An equitable distribution formula or overhead rate shall be determined annually for each factory and/or remote accounting station (See Paragraph 606.) Distribution formulas for remote accounting station should take the additional travel requirements of such operations into consideration.

a. Approval Requirements. The distribution formula shall be submitted to each appropriate Product Division and to the Resources Division each year by August 15, with a brief covering memorandum indicating the rationale used to insure equitable distribution of costs among the factories. Special or unusual circumstances governing the proration of distributable expenses shall be explained in the covering memorandum. The Division Managers shall approve the submission or forward a revised distribution formula to the location within thirty days of submission. Unresolved differences shall be submitted to the Controller for review and decision.

Selection of a reasonable distribution formula requires considerable thought and analysis. These distribution formula must be reviewed throughout the fiscal year to assure equity.

b. Criteria for Prorating General Expense. The following criteria shall be utilized as general guidelines to determine the proration of the general costs for distribution among the various factories, departments and Vocational Training operations:

- (1) Superintendent Salary/Related Benefits--time spent for each factory;
- (2) Administrative Salaries/Related Benefits--base on paper transactions processed by the Business Office;
- (3) Quality Assurance--services rendered to each factory;
- (4) Engineering and Maintenance--repairs and maintenance work orders;
- (5) Counseling and Placement--number of inmates assigned per factory;
- (6) Warehousing--total weight factor on incoming and outgoing shipment of each factory and/or average dollar value of Material and Supplies and Finished Goods;
- (7) Telephone FTS--by actual or instrument basis;
- (8) B & I (Buildings and Improvements)--actual square footage occupancy;
- (9) Electricity--meter or KWH usage estimate;
- (10) Steam--meter or space occupancy and the high pressure based on equipment demand;
- (11) Water for production purposes--meter; and
- (12) All other incidentals--handled on an individual basis.

Where seperate meters are not feasible, the feasible, the Superintendent shall arrange for the Bureau of Prisons Facilities Administrator

to make a survey to ascertain heat and power requirements for each factory within the industrial complex. Reimbursement for this service is authorized.

3. Apportioning to Vocational Training. Vocational Training (VT) administrative (business office/warehouse) and utility expenses shall be estimated prior to the start of each fiscal year in accordance with the criteria outline in par. 605.2(b) and charged to the VT account if the cost is sufficient to justify recovery. Administrative expense shall be limited to the amount published in the annual operations memorandum on vocational training. The Superintendent of Industries and Education shall review and approve annual estimates.

Estimated administrative and utility charges shall be allocated equally each month through the fiscal year. Example: Estimated annual administrative charges of \$2,400 shall be charged to VT at the rate of \$200 per month.

4. Journal Entries. Expenses in general or control accounts shall be cleared at the end of each month and distributed to each factory through the use of sub-account 57.38, Manufacturing Expense-Special. It is important that all factories receiving the expense also pick it up through the same account. This prevents duplication of reported costs for planning and budgetary purposes.

All items reported as expense in sub-account 57.38 will be summarized on the back of the FPI Form 4, Summary of Expense. It is sufficient to list on total figure for General and Administrative Expenses unless a more detailed breakdown is requested by the Superintendent of Industries, Factory Manager, or Product Line Division Manager.

606. PREDETERMINED ANNUAL OVERHEAD APPLICATION RATE

1. Definition. A definition of manufacturing overhead application rate is the ratio of the total projected production overhead expenses for a factory or a department to the projected volume of activity. The specific elements involved are:

- Predetermined overhead costs for the coming fiscal year.
- Projected direct labor cost for the coming fiscal year.
(Other activity levels may be used with the approval of Product and Resources Division Managers.)

Although direct labor cost will be the most commonly used application base in UNICOR, others are acceptable and the following discussion provides general guidance for selection.

2. Responsibilities. Determination of the annual overhead application rate is the responsibility of the location Business Manager.

Factory Managers and location Superintendents are responsible for providing input as to their accountability for various expenses, the level of production activity that is planned for the coming year, and the representative base to be used for applying predetermined rates. Factory Managers and location Superintendents are responsible for review and acceptance of the predetermined allocation base.

In some instances, Product Division management may assume the responsibility for developing the predetermined annual overhead application rate.

3. Approval. All rates are subject to Product Division management approval. See paragraphs 609 and 605.2

4. Revision During Year. Factory personnel, who determine a need for revision of these predetermined annual overhead rates during the year, may request such change by submitting a document that explains the need for such, together with data that will support the proposed new rate. Interim proposals may not be implemented until formal approval is provided by Product Division management.

5. Using Actual Overhead. The use of actual overhead in lieu of a predetermined rate may be authorized in some cases. For example, a factory that is working on one contract, for one customer, for long periods of time would be better served using actual overhead. Requests to use actual overhead shall be submitted by a well supported document that explains the need. Interim proposals will not be implemented until formal approval is provided by Product Division and Resources Division management.

607. MANUFACTURING OVERHEAD BASE

1. Selecting an Overhead Base. The primary objective in selecting a base is to determine the most representative element in the manufacturing process that can be related to overhead cost. For example, if factory overheads is predominately supervision (as in UNICOR), the proper base is direct labor cost or direct labor hours.

A secondary objective in selecting a base is to minimize clerical cost and effort. When two or more bases provide approximately the same applied overhead cost, the easiest to apply method should be used.

The following bases have frequent use in applying factory overhead cost: (1) units of production, (2) material costs, (3) direct labor cost, (4) direct labor hours, and (5) machine hours.

2. Selecting Base Activity Level. Base activity levels are related to expected volume of activity. Three capacity (plant activity) levels are in common use: (1) Full, (2) Normal, and (3) Expected. Full capacity level assumes all facilities will be used to the maximum extent possible. Normal capacity is based upon what usually takes place and relies to a great extent on prior years experience. Expected capacity is based on a forecast of what will happen in the coming year. Significantly different annualized rates would result from using different capacity levels.

The greater the level of activity (or capacity) used, the lesser will be the impact of fixed overhead expenses per production unit. Increasing levels of activity allow fixed expenses to be distributed over a greater volume of products/services.

Variable overhead expenses are not as significant a factor in capacity level selection as they tend to increase in proportion to increases in activity. The effect of semivariable expenses is greater than variable expenses, but not nearly as great as fixed overhead expense. Since UNICOR factories have substantial amounts of fixed expenses, the selection of capacity (activity) level is of great significance. If full capacity is considered to be a reasonable base, the resultant overhead rate will be low and projected product costs will be reduced. If expected capacity is projected to be at a low level, the resultant overhead rate will be higher and projected product costs will be higher.

Superintendents must recognize that performance deviations from selected capacity levels can ultimately affect reported profits. For example, if full capacity was selected as the activity level but actual operations were substantially less than full capacity, a considerable portion of overhead expenses would not be absorbed. In all probability, significant losses would result unless product selling prices far exceeded production costs. If expected capacity was selected at a level substantially below full capacity but production activity significantly exceeded expectations, factory profits would be substantial assuming that selling prices were based upon projected costs.

3. Predetermined Overhead Cost Elements. The final component of the overhead rate equation is the amount of overhead cost to be allocated to jobs. Well devised Account 57, Manufacturing Expense, estimates jointly developed by the Business Manager, Factory Manager, and the Superintendent should provide the necessary input for this component. The more sophisticated the estimating process, the greater the chance for accuracy in developing the overhead rate. An aid in making these estimates is historical costs from the FPI Form 4, Summary of

Expense. Care should be taken to exclude nonrecurring costs (see Part 11.) The best information available concerning future production activity and probable market price increases for supplies, repairs, utilities, etc., will need to be considered. Increases in civilian salaries and planned increases or decreases in civilian staff and inmate indirect labor also need to be considered.

Overhead costs that do not have a direct relationship to production should be excluded for overhead rate determination purposes. For example, product research or experimentation may be planned that had no relationship to current products. To include these costs in developing an overhead rate could not be justified. Care must be taken, however, to assure that excluded costs retain their visibility as deferred charges for further write-off or as Other Expense, Account 63, so that management gives them adequate consideration in the overall planning process (pricing, product line decision, etc.).

608. CALCULATING FACTORY OVERHEAD RATE

The factory overhead rate is determined as illustrated below. The level of activity is divided into projected overhead costs to provide the annualized overhead rate.

$$\frac{\text{Projected Overhead Expenses}}{\text{Estimated Direct Labor Cost}} = \text{Factory Overhead Rate}$$

For example; direct labor costs at full capacity of \$123,000 for the year, with overhead costs at full capacity of \$900,000, would result in an overhead rate of 750%. Direct labor costs for this same factory at expected capacity \$80,000 for the year, and overhead costs of \$800,000 at expected capacity, would result in an overhead rate of 1,000%. In both of these examples, fixed expenses were estimated at \$500,000. Semivariable expenses at full capacity were selected at \$125,000, and variable expenses at \$275,000. Semivariable expenses at expected capacity were estimated at \$115,000, and variable expenses at \$185,000.

The importance of selecting an appropriate base activity level and reasonable determination of projected overhead cost cannot be over emphasized.

609. APPROVAL OF OVERHEAD APPLICATION RATE

Product Division Manager approval is required prior to implementing computed overhead rates. Factory, Business Office, and Product.

Division personnel provide the information needs of the Superintendent. When submitting the calculated overhead rate for division approval, the Superintendent must supply sufficient documentation to facilitate an understanding as to how the rate was determined. Resources Division personnel should supply Superintendents and Product Division Management information needs on an as requested basis. See paragraph 605.2a regarding the annual distribution formula.

610. APPLICATION OF OVERHEAD RATES

When direct labor costs or hours is the selected overhead distribution base, factory overhead is applied to jobs based upon the direct labor entries to jobs as recorded on FPI Form 9, Production Order and Cost Sheet (see paragraph 306). Predetermined overhead rates are applied to FPI Form 9 entries for direct labor costs or annotated hours. For example, \$200 direct labor charge to a job for the month with a 750% overhead application rate would result in the application of \$1,500 in overhead expenses to the job. Total applied overhead expenses for each job are carried forward to FPI Form 51, Summary of Work in Process (see Exhibit 11-B, Part 11).

The resultant monthly total of applied overhead to jobs on the FPI Form 51 provides the basis for a journal entry to Work in Process Inventory (Journal Entry 17, Section 8502). The following example is based on the data in Exhibit 11-B.

		<u>Debit</u>	<u>Credit</u>
Work in Process Inventory	18.3	\$8,160	
Overhead Expense Applied	58		\$8,160

The actual factory overhead expenses for the month are accumulated in various sub-accounts (.1 to .40) to Account 57, Manufacturing Expense; Account 61, Quality Assurance Expense; Account 62 Warehouse Expense; and Account 63, Business Office Expense. (See Chart of Accounts, Section 8501.) These are summarized each month on the Summary of Expense, FPI Form 4 (see Exhibit 11-A). The actual factory overhead is summarized on the monthly Statement of Operations, FPI Form 3 and compared to applied overhead to identify the extent to which production for the month absorbed the amount of actual overhead expense incurred.

611. OVER/UNDER-APPLIED OVERHEAD

1. General. Over/under-applied overhead is not a general ledger account. The amount of over/under-applied overhead is determined from the monthly summary of overhead on the Statement of Operations, FPI Form 3.

2. Underapplied Overhead. Consistent monthly underapplied overhead, or an abnormally large balance in one month, may be the result of one or a combination of the following:

- (1) Reduced demand for products resulting in curtailment of production activity. As a result, insufficient production activity to absorb the ongoing overhead expenses.
- (2) Production inefficiencies that were not contemplated when overhead expense allocation rates were established. For example:
 - (a) Foremen not obtaining an inmate work effort consistent with the production plan.
 - (b) Abnormally large amounts of rejected products with associated rework that is not charged to the job.
 - (c) Substantial changes in the inmate work force resulting in numerous untrained workers being used, rather than a planned experienced work force.
 - (d) Downtime due to inmate strikes, fog days, or other call outs.
- (3) Changes in product design that slows the planned production work effort.
- (4) Poorly conceived overhead expense allocation rates.
- (5) Excessive overhead expenditures as compared to expectations such as costly machine repairs, and utility charge increases beyond expectations.
- (6) Inaccuracies in recording costs related to the allocation base; e.g., inmate direct labor charged as inmate indirect labor.
- (7) Inaccuracies in applying allocation rates to production jobs.

3. Overapplied Overhead. Consistent overapplied overhead or an abnormally large balance in one month may be the result of one or combination of the following:

- (1) Full production when less than full production was contemplated in the planning stages.
- (2) Production efficiencies that were not contemplated when overhead rates were established. For example:
 - (a) Foremen getting the most from inmate employees.
 - (b) Availability of better training inmates than expected.
 - (c) Less downtime than normal for the production period.
 - (d) Changes in product design that increased production efficiencies beyond expectations.
- (3) Poorly conceived overhead expense allocation rates.
- (4) Expenditure control that exceeded expectations.
- (5) Inaccuracies in recording costs related to the allocation base; e.g., inmate indirect labor charged as inmate direct labor.

4. Management Action. As previously noted, significant over/under-applied overhead provide a signal that the production effort is not proceeding as planned. Some deviations may have been unavoidable. Nevertheless, factory management should, at least, determine the cause(s) and take corrective action as necessary. Such actions could include improving production efficiencies, revising standard overhead allocation rates, improving controls related to overhead expenditures, eliminating documentation errors, or discontinuing product lines that cannot be processed with an acceptable degree of efficiency.

612. MANUFACTURING VARIATION - EXCESS COSTS

It is UNICOR policy to enter our products into Finished Goods Inventory at no more than 95% of the expected selling price to prevent overstatement of corporate inventory values. Ninety-five percent of the expected selling price is used because there are indirect costs associated with sales that are not included in the costs of production.

the factory level. These costs are estimated to be approximately 5% of sales, and inventory is therefore valued to make allowance for these expected future costs. These additional costs include local nonproduction related expenses, Product Division administrative and marketing expenses, and Corporate Headquarters administrative expenses.

If abnormal material, labor, overhead, and spoilage/rework variances are recorded properly, there should be little need for this account. It is possible, however, that a price reduction or classification of products as seconds will result in a need to write-off excess costs. Costs in excess of 95% selling price shall be debited to Account 60.2, Inventory Valuation-Write-Off, and credited to Account 15, Finished Goods, through JE-21d. For example, a product costing \$120 which sells for \$100 would overstate assets by \$25 if allowed to be put into Finished Goods Inventory at cost.

613. ORGANIZATIONAL EXPENSE

Organizational costs for starting up new factory operations include costs such as:

- Salaries of civilian and inmate staffs used to establish systems, monitor receipt of equipment/supplies, etc.
- Installation costs for equipment.
- Initial purchase of small equipment, tools, office equipment/supplies.

These costs may be accumulated in Account 40.1, Deferred and Prepaid Expense Control-Start-Up Costs, with the approval and the Resources Division and amortized through Account 57.22 Manufacturing Expense Control - Amortization.

Organization expenses of less than \$15,000 shall be amortized over a period of two (2) years. Organization expenses of \$15,000 or more should be amortized over a period of five (5) years. In determining the period of amortization, the Business Manager should review excess expenses that may reasonably be expected to be charged against Account 40 in the future. If the total of expenses to date and those estimated for the future exceed \$15,000 then the five (5) year life should be used. (The major item to consider is additional relocation expenses not yet settled.)

Monthly amortization of the account shall begin on the first day of the month in which production begins. No additional items should normally be added to the Account 40 once production is underway. However, there are some situations where additions are possible, for example, additional relocation expenses or machinery operating training is required. If the efforts to have all expenses recorded prior to the start of amortization do not succeed, the monthly amortization expense will be adjusted - not the period of amortization. In no case shall the original 24 or 60 month period be modified. Thus, each addition in organization expense will increase the monthly amortization expense.

EXAMPLE. Organization expense of \$18,000 is to be written off at the rate of \$300 per month starting 12/1/80. In November 1981, an additional \$1,200 is determined to be part of the original organization expense and is debited to Account 40. The total organization expense is now \$19,200. This shall still be expensed by 11/30/81 and the monthly amortization expense is increased to \$325, charge-off the \$1,200 over the remaining 48 months or an additional \$25 a month.

PART 7

MANUFACTURING COST SYSTEMS, GENERAL

700. TYPES

Job order and process costing are the two principal approaches to cost accounting used by FPI factories.

Job order costing is used in those situations where it is necessary of desirable to identify costs related to a specific amount of production. The quantity of production could be a single unit, sales order, batch, or any other accumulation.

Process costing is used when products are manufactured in a relatively continuous operation for a specified period of time.

Standard costing is a system used in part by FPI factories. It allows comparison of actual costs to established standards as baselines to generate data for management use in controlling operations.

These systems are discussed in Parts 8 and 9, and paragraph 110 of this Manual.

701. AUTHORITY TO SELECT SYSTEM

The Superintendent of Industries, with the approval of the Product Line Division Managers and Resources Division Manager shall determine the most efficient cost system to be implemented based on information outlined in paragraph 112, and Parts 7, 8, 9, and 10.

702. PRODUCTION RUNS

To enhance our techniques of accumulating reliable cost data and enable production supervisors to control the physical flow of goods, a production run should be scheduled in a manner not exceed 120 calendar days. Jobs or processes, with anticipated longer production runs, should be divided into controllable quantities or lots that can be completed within 120 days. The Product Line Division Manager shall be notified of all deviations from this procedure.

703. INVENTORY VALUATION WRITE-OFFS

It is UNICOR policy to enter our products into Finished Goods Inventory at no more than 95% of the expected selling price to prevent overstatement of corporate inventory values. Ninety-five percent of the expected selling price is used because there are indirect costs associated with sales that are not included in the costs of production

at the factory level. These costs are estimated to be approximately 5% of sales, and inventory is therefore valued to make allowance for these expected future costs. These additional costs include local non-production related expenses, Production Division administrative and marketing expenses, Support Division administrative expenses, and Corporate Headquarters administrative expenses.

If abnormal material, labor, overhead, and spoilage/rework variances are recorded properly, there should be little need for this transaction. It is possible, however, that a price reduction or classification of products as seconds will result in a need to write-off excess costs. Costs in excess of 95% selling price shall be debited to Account 56.4, Inventory Valuation Write-offs, and credited to Account 15, Finished Goods, through JE-21d. For example, a product costing \$120 which sells for \$100 would overstate assets by \$25 if allowed to be put into Finished Goods Inventory at cost.

704. JOB FOLDERS

Job order folders will be established and maintained in accordance with paragraph 202.

PART 8

JOB ORDER COST SYSTEM

800. DEFINITION

A job order cost accounting system is one whereby all costs of a job or contract move through the production process as a continuously identifiable unit. Costs are separately accumulated and compiled in analytical form. Material costs and work performed vary from job to job.

801. BASIC PRINCIPLES

The principles explained in the remainder of this paragraph are basic to a job order costs system.

Job costs systems are used in those factories in which work is initiated by issuance of a job order, which corresponds to a customer's order or a manufacturing order for stock, by the Product Division Manager.

A Request for Special Authorization is required to produce for stock. See Chapter 8500, Section 8509, Inventory, in the Accounting Manual.

The job order system should be implemented when the manufacturing entails a variety of assembled products and the end products are uniform. In such cases, a job-lot or job-batch will be established.

Costs of material, labor, and manufacturing overhead are posted to a cost sheet in analytical form to facilitate accumulating totals by costs elements, and to support the General Ledger Balance Work in Process Inventory.

Normally, direct labor cost is the basis for allocating or applying overhead costs to each job.

Each job will be charged with material, labor, and overhead until completed. (See Exhibit 8-A).

8000.1
Chapter 8500
Page 8506.8-2
CN-15
August 24, 1983

Exhibit 8-A

802. GUIDELINES

1. Authorizing Production. All production in the factory shall be authorized by an approved Production Order and Cost Sheet, FPI Form 9 (see paragraph 306). Cost sheets should serve as a management tool to evaluate each job. This form will be initiated by the factory Manager from information derived from the customer orders or special authorizations. Number assigned to a given job may be merely the next unassigned number in a series of consecutive numbers, or it may be an elaborate number to reveal additional about the job. A Material Control List, FPI Form 48 (see paragraph 305), shall be required for manufacturing, purchasing, and costing each product. A copy of the Material Control List shall support all material charges to the FPI Form 9. Also, see subparagraph 802.2 regarding requisitions.

See Exhibit 8-A for a flow chart of accounting transactions used in a job order cost system. Part 3 contains instructions for preparing and using the various production costs documents.

2. Direct Materials. Requisitions or voucher adjustments are the basic media to support material charges on each respective FPI Form 9. Factory Managers will approve all requisitions in accordance with the guidelines of this Manual. Generally, total materials required for a job should not be totally requisitioned at one time unless the job will be completed during the same month.

When a job is completed, the Material Control List and FPI Form 9 will be reviewed for any unusual postings or excessive variations. The Factory Manager or his representative shall explain or justify all unusual charges or abnormal deviations before closing the job.

3. Direct Labor. All inmate labor costs which can be economically identified and traced to the manufacture of a product shall be charged to the job. Daily time tickets, or other acceptable time records, shall be the posting media for direct labor costs charged to each job. The Factory Manager or his representative shall examine and initial all daily timekeeping documents before submitting them to the Business Office.

The Business Office shall post direct labor to jobs through use of the Monthly Labor Summary, FPI Form 19. These amounts shall be summarized and posted to the Production Order and Cost Sheet, FPI Form 9, monthly or upon completion of the job.

In some situations, it would be better to charge direct labor on a predetermined or standard basis to overcome unwieldy accounting details. Predetermined or standard labor charges shall be justified, evaluated, and approved by the Product and Resources Division Managers prior to use. Standards used shall be based upon labor estimate/time studies established on Schedule of Labor Rated, FPI Form 58 for each product.

Variances from estimates in excess of $\pm 10\%$ shall be evaluated to determine cause. Consistent significant variances shall be cause to initiate review of labor standards for products and/or accumulation of labor by job/process to determine reasons for variances. In any event, they should be reviewed at least semiannually to insure realistic cost data.

4. Manufacturing Overhead. Manufacturing overhead is applied to work in process by actual costs or predetermined standard rates. At the close of each month or at the completion of each job, overhead is applied through the use of the current overhead rate. Part 6 contains detailed instructions for calculating overhead rates and distributing manufacturing overhead expenses.

5. Job Completion. The Factory Manager shall develop an internal procedure for advising the Business Manager of job completions. This can be accomplished through inter-office memo, notation on finished goods tickets, etc. The system developed should insure that notification is made within 24 hours of completion to expedite shipment, accounting, analysis of the job. A system which incorporates notification to the Business Manager several days prior to the job completion would result in more effective scheduling of shipping and more efficient use and planning of warehouse space.

PART 9

PROCESS COST SYSTEM

900. DEFINITION

A process is a step in manufacturing a product, and a process cost system is one in which costs are assembled in terms of processes or manufacturing steps.

901. BASIC PRINCIPLES

The emphasis in process costing is a period of time and the number of units completed during that period of time. Additionally, products may be manufactured for stock rather than for specific orders. Unlike job order costing, where costs are recorded separately for each job, the emphasis in process costing is on the accumulation of costs for all units worked on in a department during a given period of time. The processed units in a department are typically homogeneous in nature. Average unit costs are determined and provide the basis for transferring costs from one processing center to the next.

The process cost system should be implemented under some of the following conditions:

- Continuous or mass production where individual items or lots lose their identity.
- Production of a single product.
- Departmentalize factories where the product of one process becomes the raw material of subsequent processes.

Because the output consists of like units, the same amounts of materials, labor, and overhead are chargeable to each unit processed. Therefore, the average cost of a unit can be readily determined at the end of each manufacturing process by dividing the total costs of each process by the total units produced. The stage of completion is usually estimated for products remaining in work in process. See Exhibits 9-A and 9-B for flow charts of process cost systems.

When establishing a process cost system, it is essential that there be a clear understanding of the term, department. Department shall mean a production area in which a piece or pieces of material are flowing from one work station to another without a break in the normal or

8000.1
Chapter 8500
Page 8506.9-2
CN-15
August 24, 1983

Exhibit 9-A

PROCESS SYSTEM COST FLOW

8000.1
Chapter 8500
Page 8506.9-3
CN-15
August 24, 1983

Exhibit 9-B

continuous processing of that material. An example of a single department would be a mail bag operation where canvas is cut, sewn at several stations, grommets added, and ties threaded. Another would be a broom operation where the handles and straw might go through six or seven work stations during production.

An example of a factory with two departments would be a mail basket factory. Reinforcing rods are cut and bent in one department and transferred, when required, to another department for welding and assembly with the frames and canvas inserts. In this case, there is not a continuous flow and the products (rods) are transferred between the departments as needed and not as a normal or continuous flow of operations.

902. CHARGING COSTS TO DEPARTMENTS

Since there are no jobs in a process cost system, accounting for production costs is simplified. Raw material costs can be obtained from summaries of requisitions by departments, and direct labor costs from summaries of payroll costs by departments. As such, each department should have standards or estimates established for the material, labor, and overhead costs of its phase of the process. This shall be accomplished through use of a separate Unit Cost Estimate, FPI Form 73, for each department and a summary Unit Estimate for the entire process. This is necessary to provide the standards by which costing, inventory, and analysis of the process can be accomplished.

Overhead costs can be charged to departments on a direct basis or can be allocated to departments through the use of departmental standard overhead rates applied to either direct labor costs or other meaningful allocation base; i.e., direct labor hours, machine hours, etc. As a minimum, major overhead cost items that can be readily identified with a department should be charged on a direct basis; e.g., foremen civilian salaries, major equipment depreciation, and indirect inmate labor. Any direct charge of overhead items will eliminate those items from overhead expenses that will be allocated on the basis of standard rates.

A Monthly Process Cost Summary Sheet, FPI Form 59, is prepared for each department or process. (See Exhibits 9-C and 9-D.) The Process Cost Summary Sheet identifies the costs charged to a department during the production period, the equivalent units produced, and the costs applicable to each unit produced. Summarized departmental costs facilitate cost analysis required in Part 2. The example illustrated in Exhibits 9-C and 9-D is based on a production methodology with raw materials and direct labor entering the production cycle in different proportions during the production run. The same format would be used,

8000.1
Chapter 8500
Page 8506.9-5
CN-15
August 24, 1983

Exhibit 9-C
Monthly Process Cost Summary Sheet
FPI Form 59 (Department 1)

8000.1
Chapter 8500
Page 8506.9-6
CN-15
August 24, 1983

Exhibit 9-D
Monthly Process Cost Summary Sheet
FPI Form 59 (Department 2)

however, when raw materials and direct labor enter the production cycle in equal portions throughout the production process. Subparagraph 908.3 provides instructions for preparing the Monthly Process Cost Sheet.

903. EQUIVALENT UNIT COSTS

A basic objective of a process cost accounting system is the determination of unit processing costs for material, labor, and overhead in each processing department. When a department begins and ends a cost period with partially units of products, the units completed in the department are not an accurate measure of the department's production. Production must be measured in terms of equivalent finished units and unit costs become equivalent finished unit costs. (See Exhibits 9-C and 9-D.) The concept of an equivalent finished unit is based on the assumption that it takes the same amount of labor, for instance, to finish one third of three units as it takes to finish one unit. See subparagraph 908.3 F.

904. WORK IN PROCESS INVENTORIES

The key to effective implementation of the process cost system is valid and accurate data on raw materials, direct labor, applied overhead expenses, and work in process (WIP) inventories. With meaningful data supplied, deficiencies in cost accumulations or inefficiencies in production can be disclosed.

Reasonable estimates of WIP inventories are acceptable for short periods of time, but a physical inventory must be taken at least three times each fiscal year, to assure data reliability.

In order to accurately report operating income or loss, journal entries are required, each month, to adjust the WIP inventory balances in the accounting records to estimated or physical inventory balances. It is not necessary to adjust for minor deviations between WIP inventories as recorded in the accounting records and WIP inventory estimates. The accounting records should be adjusted, however, for all deviations from physical inventories.

905. DIRECT MATERIAL

Direct material required for production shall be ordered through use of the Storeroom Requisition, FPI Form 49. (See paragraph 307.) The Factory Manager shall develop procedures to insure the control of material flow by department. Locally developed count tickets shall be used for the transfer of materials from one department to another. Copies of these shall be forwarded to the Business Office daily. The

Business Office shall use these in conjunction with Storeroom Requisitions, Unit Costs Estimates, and Factory Manager estimates of percentage of work completed to determine cost of units produced and ending balance in Work-In-Process. The methods for accomplishing this are outlined in the instructions for the Monthly Process Cost Summary Sheet, FPI Form 59, of this part.

906. DIRECT LABOR

Each department supervisor shall sign and submit a daily time and production sheet for work performed by each inmate in his department. The accounting clerk shall compute and record total hours worked and related total dollar costs on a daily or weekly basis, or at the end of the month, by each process department. Direct Labor remaining in process shall represent the total Direct Labor costs of uncompleted units and shall be reconciled with each physical work in process inventory.

907. MANUFACTURING OVERHEAD

Manufacturing overhead expenses may be charged direct to each department as incurred where feasible or charged at month end on the basis of predetermined rates. Separate overhead accounts and Summary of Expenses, FPI Form 4, shall be maintained for each department. Predetermined rates may be devised for a number of overhead pools or for all overhead expenses of a factory. Various combinations may be used such as civilian salaries charged direct, cost of a maintenance pool on a predetermined rate, and the balance of overhead expenses on another predetermined rate. The rate for the maintenance pool could be simple, such as 20 percent of all maintenance pool expenses for each period charged to a department.

Usually, general type overhead expenses are allocated on a more complex basis; i.e., total general expenses estimated for the year along with an estimate for an allocation base, such as direct labor cost or hours. The estimate for the allocation basis is divided into the estimated overhead expenses to arrive at a standard rate. The standard rate is applied to actual base costs for the department for each period to arrive at the overhead expenses applicable to a department for the period. (See Part 6, Accumulation and Control of Overhead Costs.)

908. MONTHLY PROCESS COST SUMMARY SHEET, FPI FORM 59

1. Monthly. At the close of each month, each type of time is summarized on a master cost sheet (FPI Form 59, Exhibits 9-C and 9-D), indicating total accumulated costs for material, labor, and applicable overhead for that month. These cost data shall be further summarized in

analytical form on FPI Form 51, Summary of Work in Process (Part 11), with charges for completed products transferred to Finish Goods.

2. Completion of a Lot or Batch. Upon completion of a lot or batch, actual material and labor costs shall be analyzed in comparison with estimated costs.

3. Preparation. The Monthly Process Cost Summary Sheet, FPI Form 59, is prepared monthly by the Business Office for each processing department. Instructions for completing the form are listed below, keyed, by Block letters, to the corresponding spaces on Exhibits 9-C and 9-D. In those two exhibits, two sample forms illustrate recording the flow of costs for goods transferred from one processing department to another.

<u>Block</u>	<u>Explanation</u>
A. <u>Month Ended.</u>	Enter month, last day, and year for the month to which the Summary Sheet applies.
B. <u>Location.</u>	Name of the Institution where located.
C. <u>Industry.</u>	Type of Industry.
D. <u>Department.</u>	Name of processing department concerned.
E. <u>Costs Charged</u> to the De- partment.	Total costs to be accounted for are the total of the material, labor, and overhead charges for month, plus costs transferred from other departments during that month and goods in process in the department at the beginning of the month.
F. <u>Equivalent</u> <u>Unit Pro-</u> of <u>cessing Costs.</u>	<p>This section is used to determine the equivalent unit processing cost for each of the elements production for the month. To accomplish this, it is necessary to know the number of units in process at the beginning of the month, units started and completed during the month, and the number of units in process at the end of the month.</p> <p>These units may be in various stages of completion. If so, the fraction of a unit added during the month must be determined. For example, if beginning inventories were 1/4 completed that month. If ending</p>

Block

Explanation

inventory is 1/3 complete, and there was no beginning inventory, then, 1/3 was added during the month. This information is preferably based on physical inventory; however, meaningful estimates of work in process inventory by the Factory Manager may be used.

Making estimates is not a simple process. The Factory Manager should develop systematic procedures or guide lines for estimating the percentage of completion of materials and labor in process. He/she can use department Unit Cost Estimates (FPI Form 73), Material Control Lists (FPI Form 48), and Monthly Labor Summary (FPI Form 19).

These equivalent units are, then, divided into costs added for the month to each of the elements (see Block E), to determine the equivalent unit processing cost.

G. Goods in WIP,
costs of
beginning of
month, using
month.

This section summarizes the total process goods in process at the beginning of the beginning costs plus costs added. This is determined by using equivalent units added times the equivalent unit processing costs.

H. Goods started
cost
and finished.

This section summarizes the total process of goods started and completed during the month, using units processed times the equivalent unit processing cost for the month, plus costs of goods transferred from other departments.

I. Total cost of
represents
goods trans-
ferred to
ferred to
finished
goods.

This is the total of Blocks G and H, and the total accumulated costs of goods the next department or to Finished Goods.

J. Goods in WIP,
costs of

This section summarizes the total process

end of month.

goods in process at the end of the month,
using the equivalent units processed times
the equivalent unit processing cost, plus the
cost of goods transferred from other
departments.

<u>Block</u>	<u>Explanation</u>
K. <u>Total costs</u> represents <u>accounted for.</u>	This is the total of Blocks I and J, and total costs to be accounted for during the month. It must be equal to total costs determined in Block E.
L. <u>Analysis of</u> processing <u>Department</u> Comments <u>Acitvity</u>	This section compares equivalent unit costs for the month to cost estimates. shall be made providing the reasons for significant variances and, if appropriate, the corrective action to be taken. If more space is needed, use of the back of the Form or attach an additional sheet.

8000.1
Chapter 8500
Page 8506.10-1
CN-15
August 24, 1983

PART 10

STANDARD COST SYSTEM

Part 10 has been merged into paragraph 110. See that paragraph.

PART 11

COST REPORTING

1100. REQUIREMENTS, GENERAL

Cost accounting reports are, generally, for internal use to present the financial results of production/service activities. They are designed to help managers guide, measure, and judge--in financial terms--the operations under their supervision.

The forms discussed so far in this Manual are used, primarily, at the factory level. The forms that are discussed in this Part are reports to be submitted monthly to the Product and Resources Divisions in accordance with Chapter 8500, Section 8540, of the Accounting Manual for analysis, review, and comparison of operations. They are the:

- Summary of Expense, FPI Form 4. Summary of expenses for various accounts such as manufacturing overhead, service departments, vocational training, etc. (Exhibit 11-A)
- Summary of Work in Process, FPI Form 51. Analysis of activity and changes in WIP inventory. (Exhibit 11-B)
- Monthly Completed Job Order Report, FPI Form 10. Summary and analysis of completed jobs for the month. (Exhibit 11-C)

1101. RESPONSIBILITIES

1. Superintendent of Industries. The Superintendent of Industries is responsible for reviewing and evaluating the accuracy and adequacy of the reports and insuring timely submissions.

2. Resources Division. Resources Division personnel shall review the forms, monthly, to insure proper format and consistency with other monthly reports; e.g., FPI Form 2, Comparative Balance Sheet-Condensed Statement of Operations.

3. Product Division. The Product Division is responsible for monthly review of the forms for reasonableness of entries, and analysis/measurement of effectiveness of factory operations.

1102. SUMMARY OF EXPENSE, FPI FORM 4

1. Purpose. The Summary of Expense, FPI Form 4, is a multipurpose form which provides management with information concerning the distribution/classification of expenses for Manufacturing (Account 57), Quality Assurance (Account 61), Warehouse (Account 62), Business Office (Account 63), Selling (Account 64), Other (Account 65), Pre-industrial (Account 66), Support Division (Account 71), Product Division (Account 72), Corporate Administrative (Account 73), Vocational Training (Account 75), and Vocational Training Experiments (Account 76). The form may also be used to report manufacturing department expenses.

The form identifies the specific nature or types of expense and allow comparison and analysis of current expense to prior year charge for the same period.

A sample FPI Form 4 is illustrated in Exhibit 11-A.

2. Responsibilities. The Business Managers have a responsibility to ensure the accuracy of information reported. Accountants are responsible for the preparation of these reports. Factory Managers and Superintendents have a responsibility to review and analyze the assembled data for consistency with planning documents and determine reasons for abnormalities (excessively high or low expenditures for the accounting period).

3. Frequency. The original of the form will be submitted to Central Office (Resources Division) and a copy to the Product Division concerned by the 12th calendar day of the month following the one to which the report applies.

The form will be prepared monthly for Manufacturing Expense Control (57), General Corporate Administrative Expense (73), and Support Division Expense (71) and Product Division Expense (72). Quarterly reports will be made for all other operational and non-operational expense accounts.

4. Basic Principles. The FPI Form 4 is prepared from accounting data maintained by the Business Office and provides detailed information related to factory expenditures other than for raw materials and direct labor. These expenditures are a significant element in factory operations and must be controlled to assure operating efficiency. The Form 4 reports provide a management tool for review and analysis as to the effectiveness of established controls.

Comparison of reported expenditures with planning documents can disclose inconsistencies that need to be reviewed for cause and pos-

8000.1
Chapter 8500
Page 8506.11-3
CN-15
August 24, 1983

Exhibit 11-A
Summary of Cost Expense
FPI Form 4

sible corrective action. Comparison of monthly charges may provide explanation for significant variances on the Overhead Analysis on the FPI Form 3, such as abnormalities in lost and damaged goods, machine repairs, factory supplies, or inmate indirect labor.

5. Preparation. The following instructions are guidelines for preparing Summary of Expense, FPI Form 4. The Block letter designations are keyed to corresponding spaces on the Form illustrated in Exhibit 11-A.

<u>Block</u>	<u>Explanation</u>
A. <u>Industry.</u>	Enter designated factory title.
B. <u>Location.</u>	Location of the Institution.
C. <u>Date.</u>	Month and year for period of report.
D. <u>Type.</u>	Enter nominal account or service department being reported; i.e., Manufacturing Expense, Sales Expense, Vocational Expense, Business Office, Quality Assurance, etc.
E. <u>Account.</u>	Enter nominal account number that identifies type in Block D; i.e., 57, 50, 63, etc. Account 57 will have several subsidiaries that may be identified as A - Factory, B - Business Office, C - Warehouse, etc.
F. <u>This Month</u> subsidi- <u>Amount.</u>	Enter total of monthly charges to applicable ary account to the nominal account being reported. This total is arrived at after posting all journal entries to the General Ledger Subsidiary Expense Card for the month.
G. <u>This Fiscal</u> <u>Year to Date</u> <u>Amount.</u>	Enter the cumulative amount accumulated for the fiscal year from the General Ledger Subsidiary Expense Card.
H. <u>Same Period.</u> <u>Last Year.</u>	Obtain these figures from Column G of the FPI Form 4 prior year report for the month being reported.
I. <u>Total Factory</u> <u>Expense This</u> <u>Month.</u>	Total of all entries.

1103. SUMMARY OF WORK-IN-PROCESS, FPI FORM 51

1. Purpose. The FPI Form 51, Summary of Work-In-Process, provides a monthly summary of jobs identifying Work-In-Process Beginning, Charges for the Month, Credits for the Month, and Work-In-Process Ending. The data furnished by this report is utilized by the:

- Product Division Office to monitor factory production.
- Business Office to summarize and reconcile monthly charges as entered on open Process Cost Summary Sheets, FPI Form 59, and Production Order and Cost Sheets, FPI Form 9, to the General Ledger balance for Work-In-Process, Account 18.
- Business Office to reflect total credits to WIP for Journal Entry preparation of debits to Finished Goods, Raw Materials, Overhead Expense, Manufacturing Variations, and the 95% adjustment for any costs in excess of selling price.

A sample Form 51 is illustrated as Exhibit 11-B.

2. Responsibilities. The Business Manager is responsible for preparing the Form 51, and the Business Manager, and the Superintendent of Industries must be assured that information reported on the form reflects accurate data.

Factory Managers have a responsibility to assure that data supplied on FPI Forms 9 and WIP ending inventory balances are reasonably accurate and reliable.

Product Division Managers have a responsibility to review and analyze Form 51 submissions. Consideration should be given to further investigation and operational guidance for significant: (1) cost write-offs in excess of 95% of selling price (2) charges to abnormal spoilage/scrap losses, and (3) charges or credits to variance accounts.

Resources Division personnel have review and analysis responsibilities to assure that the Form 51 is properly prepared and submitted on a timely basis.

3. Basic Principles. The FPI Form 51 is a monthly summary of applied costs to production activity by job order. The form is prepared by the Business Office personnel from copies of the Factory Manager's FPI Form 9.

8000.1
Chapter 8500
Page 8506.11-6
CN-15
August 24, 1983

Exhibit B
Summary of Work-In-Process
FPI Form 51

The Form 51 is primarily an accounting document which supports Journal Entries 18. (See Chapter 8500, Section 8502, Journal Entries, in the Accounting Manual.) Journal Entry 18 transfers completed production from WIP Inventory to Finished Goods Inventory, or to Raw Materials Inventory, for component parts produced.

The dollar amount of variances is determined by comparing applied costs from the Forms 9 to actual costs shown in the accounting records.

Abnormal costs of rework/scrap resulting from inefficient production activity as reported on Defective Work/Scrap Reports, FPI Form 31, are also incorporated in Journal Entry 18a for documentation to the accounting records.

Journal Entry 21d is an adjusting entry to write-down transfers to Finished Goods Inventory to 95% of unit selling prices if those transfers exceed the 95% criteria. See paragraph 612. The data for Journal Entry 21d requires a comparison of unit values transferred to Finished Goods with unit selling prices. Such write-downs warrant factory management review for follow-up on the reasons for the excess costs.

End of accounting period WIP inventory valuations are also shown on the Form 51, and warrant review by factory management to assure consistency with the actual WIP inventory at the close of the accounting period.

4. Preparation. Each month, a Business office employee must prepare the Form 51 from FPI Form 9 or FPI Form 59. WIP charges for the month should be reconciled with applicable General Ledger accounts, and any variances determined for adjustment of WIP inventory balances.

Charges to Finished Goods inventory must be determined and, if necessary, adjustments made to preclude unit valuations from being transferred to Finished Goods Inventory in excess of 95% of selling price.

Each month, the original of the FPI Form 51 will be submitted to the Resources Division by the 12th calendar day of the following month with one copy sent to the applicable Product Division. Sufficient additional copies will be prepared to serve the needs of the Business Office and the Factory Manager.

The following instructions, keyed to Exhibit 11-B, shall be followed when preparing the report:

<u>Block</u>	<u>Explanation</u>
<u>Sheet No.</u>	If more than one page is required, in the upper right corner, number the pages; e.g., if there are two pages, enter Sheet 1 of 1 on the first page, and Sheet 2 of 2 on the second page.
A. <u>Industry.</u>	Factory name.
B. <u>Located at.</u>	Location of the Institution.
C. <u>Month of.</u>	Month and year.
D. <u>Job No.</u>	Job Number.
E. <u>NSN or FPI Part No.</u>	Applicable National Stock Number or UNICOR Product Part Number.
F. <u>Description.</u>	Description such as desk, table, washcloth, etc.
G. <u>Selling Price.</u>	Current selling price for the product. Provides a ready source to compare Finished Goods charges and WIP balances to selling price by units.
H. <u>Quantity Ordered.</u>	Number of units scheduled for production from the Form 9.
I. <u>Quantity Completed to Date.</u>	Enter the cumulative total of units produced through the month being reported.
J. <u>Balance Beginning of Month, Material</u>	Balance of material costs in process forwarded from ending balance, previous monthly report.
K. <u>Balance Beginning of Month, Labor</u>	Balance of labor costs in process forwarded from ending balance, previous monthly report.
L. <u>Balance Beginning of Month, Overhead</u>	Balance of overhead cost in process forwarded from ending balance, previous monthly report.
M. <u>Charges for Month, Material</u>	Monetary value of materials charged to the Production Order.
N. <u>Charges for Month, Labor</u>	Direct labor charges for the month as based on the Monthly Labor Summary, FPI Form 17,

and entered on Production Orders
and Cost Sheets, Form 9.

- O. Charges for
Month,
Overhead Applied overhead to job for the month utilizing
annual fixed overhead rate applied to the base and
posted to the FPI Form 9.

<u>Block</u>	<u>Explanation</u>
P. <u>Acct.</u>	Enter asset or expense account to be debited when removing goods from Work-In-Process. The normal entry will be Account 15, Finished Goods; however, entries will occasionally be charged to Account 20, Raw Materials, or Account 60.2, Inventory Variation Valuation Write-Off.
Q. <u>Units.</u>	Enter the number of end products removed or credited from work in process for the month based on Finished Goods receiving reports received for the month and entered on the FPI Form 9.
R. <u>Credits for the Month, Material.</u>	Material cost transferred from WIP to applicable inventory or expense account. The unit cost for this transfer is based on the material cost as shown on FPI Form 9.
S. <u>Credits for the Month, Labor.</u>	Direct Labor cost transferred from WIP to applicable inventory or expense account. The unit cost for this transfer is usually based on the labor cost as shown on the FPI Form 9.
T. <u>Credits for the Month, Overhead.</u>	Applied overhead charged to the job based on direct labor charges, for the month in Block S. Rate is based on the authorized annual fixed rate posted on the FPI Form 9.
U. <u>Balance End of Month Units.</u>	Normally, this figure will be the difference between the quantity scheduled to be produced on the job order and the quantity finished to date. Column H minus Column I.
V. <u>Balance End of Month, Material.</u>	Cost of material retained in Work-in-Process after all applicable charges for the month are accomplished.
W. <u>Balance End of Month Labor.</u>	Cost of direct labor retained in WIP after all applicable charges for the month are accomplished.
X. <u>Balance End of Month, Overhead.</u>	Cost of applied overhead retained in WIP after all applicable charges for the month are accomplished.

- Y. Subtotals. Enter subtotals for Blocks, J, K, L, M, N, O, R,
S, T, V, W, AND X.
- Z Inventory Enter inventory adjustments as applicable.
Adjustments.

<u>Block</u>	<u>Explanation</u>
AA. <u>Totals.</u> V, W	Enter totals for Block J, K, L, M, N, O, R, S, T, and X.
BB. <u>Totals</u> and <u>Beginning</u> <u>Balances.</u>	Summarize Beginning Balances for Material, Labor Overhead, Line BB, Blocks J, K and L. Enter total.
CC. <u>Totals,</u> and <u>Charges.</u> total.	Summarize charges for month for Material, Labor Overhead, Line BB. Blocks M, N, and O. Enter
DD. <u>Totals,</u> Blocks <u>Credits.</u>	Summarize charges to Work-In-Process, Line BB, R, S, and T. Enter total.
EE. <u>Balance,</u> <u>End of Month</u> total.	Summarize ending balances for Material, Labor and Overhead, Line BB, Blocks V, W, and X. Enter
FF. <u>Finished</u> adjust <u>Goods</u> The <u>Adjustment.</u>	This block provides an example of how the 95% ment should be identified on this report by job. total arrived at for an adjustment to Finished Good is the difference between the shelling price and 95% of the selling price. A credit is made to Account 18 through Journal Entry 18. The debit account to accumulate year-to-date activity for this information is Account 56.4, Cost of Sales-Inventory Valuation Write-off.
GG. <u>Recap.</u> Total	Recap of credits to work in process by account. shall equal total of EE.

1104. MONTHLY COMPLETED JOB ORDER REPORT, FPI FORM 10

1. Purpose. FPI Form 10 is a monthly report which provides a listing of Production Orders completed during the month. (See Exhibit 11-C.) The report identifies cumulative costs for Material, Labor and Overhead that were charged to the Production Order and Cost Sheet, FPI Form 9, and to the Summary of Work in Process, FPI Form 51. The report provides columns to compare total manufacturing cost to the selling price and to report the amount of profit/loss derived.

2. Responsibilities. The Business Manager is responsible for preparing and submitting the Monthly Completed Job Order Reports, based

upon FPI Form 9, furnished by the Factory Manager. Following review by the location Superintendent, the original is to be mailed to the Resources Division with one copy to the applicable Product Division by the 12th calendar day of the month following the one to which the report applies.

Product Division and factory personnel are responsible for review and analysis of this report.

8000.1
Chapter 8500
Page 8506.11-11
CN-15
August 24, 1983

Exhibit 11-C
Monthly Completed Job Order Report
FPI Form 10

3. Basic Principles. This report summarizes all of the monthly data reported on each job. As a result, the overall production efficiency and profit and loss pertaining to each job are available for review and analysis. Decisions can be made as to the need for sales price increases, product lines to be featured in obtaining additional orders, and production areas that need to be improved to attain production efficiency.

4. Preparation. The following instructions are provided for preparing the Monthly Completed Job Order Report, FPI Form 10. The Block letter designations correspond to spaces on the form illustrated in Exhibit 11-C.

<u>Block</u>	<u>Explanation</u>
<u>Location</u> (no letter)	In top center, below title of report, enter name of Location of Institution.
A. <u>Month.</u>	Enter month and year for month being reported.
B. <u>Job Date.</u>	Enter date that the job was started as shown on the Production Order and Cost Sheet, FPI 9.
C. <u>Job No.</u>	Enter the job number from the applicable FPI Form 9.
D. <u>Number</u> <u>Completed.</u>	The total number of units produced on the job.
E. <u>Description.</u>	Identify the item produced, such as desk, chair, wash cloth.
F. <u>NSN-Part No.</u>	The National Stock Number of FPI Product Part Number as applicable.
G. <u>Cost,</u> <u>Material.</u>	Cumulative direct charges to the Form 9 for the entire job.
H. <u>Cost Labor.</u>	Cumulative direct inmate labor charges to the Form 9 of the entire job.
I. <u>Cost</u> <u>Overhead.</u>	Cumulative applied overhead charges to the Form 9 for the entire job.
J. <u>Cost, Total.</u>	The total amounts entered in Columns G, H, and I for that job.
K. <u>Selling</u>	Current, approved selling price for that job. Obtain from work order.

L. Profit/Loss.

Profit or loss for the job. Represents Block K minus J. Enter a loss, if any, in parentheses as a negative amount.

SECTION 8506, UNICOR COST ACCOUNTING MANUAL, IS CONTAINED IN A SEPARATE
MANUAL. SEE FPI BUSINESS MANAGER FOR DETAILS.

SECTION 8507

DISBURSEMENTS

INDEX

<u>SUBJECT</u>	<u>PAGE</u>
100. STANDARD FORM 1081 - 'VOUCHER AND SCHEDULE OF WITHDRAWALS AND CREDITS'	1
101. PREPARATION OF A SF-1081 - GENERAL	1
102. ON-LINE PAYMENT AND COLLECTION SYSTEM (OPAC)	1
103. CIVILIAN PAYROLL	2
104. REPORTING OF CASH TRANSACTIONS TO TREASURY	2
105. RECONCILIATION OF THE SF-224 TO THE STATEMENT OF DIFFERENCES (TFS FORM 6652)	2
106. ACCOUNTING FOR VOUCHERS/DISBURSEMENTS	2
107. ACCRUED EXPENSES	3
108. RECONCILIATION OF CASH TRANSACTIONS	3

100. VOUCHER AND SCHEDULE OF WITHDRAWALS AND CREDITS (SF-1081)

An SF-1081 is prescribed for use as a combined voucher and schedule by agencies within the Treasury disbursing area to process expenditure withdrawals and credits between appropriations and fund and receipt accounts when checks are not to be delivered to the billing office, and they cannot be billed through OPAC.

101. PREPARATION OF A SF-1081 - GENERAL

1. The billing office must initiate an SF-1081. The billing office must identify the accounting station (Department/Bureau) to receive the credit by:

- Name,
- Agency location code (ALC),
- Mailing address,
- Appropriation, fund, or receipt symbol to be credited, and
- Amount that is to be credited.

The billing office shall then assign an invoice number to the SF-1081, retain a pending copy and forward the original and one copy of the remaining SF-1081 package to the office to be billed.

The billed office must then identify their accounting station by:

- Name (Department/Bureau),
- ALC,
- Mailing address,
- Appropriation, fund, or receipt symbol to be charged.

The amount of payment must equal the amount billed. A voucher number shall be assigned and the SF-1081 shall be completed and certified as appropriate. The billed office shall retain a copy and forward the original to the billing office. A copy of the SF-1081 shall be forwarded to the accountant for processing through the Accounts Payable module of SYMIX.

2. The customer agency shall report both the billing and receiving transactions accomplished on the SF-1081 on their monthly SF-224. No copies of the SF-1081 are required to be sent to Treasury. The SF-224 will be the document used by Treasury to transfer funds.

102. OPAC

Upon receiving an OPAC billing, the accountant shall process the transaction through the Accounts Payable module of SYMIX, generating a manual schedule and assigning it a voucher number. The certifying officer shall sign the voucher attesting that the payment was legal and proper.

If there are any discrepancies in the billing, the Business Manager shall insure that the billing agency is contacted prior to making any adjustments through GOALS.

103. CIVILIAN PAYROLL

The civilian payroll is transmitted by the Department of Justice to field sites via the Financial Management Information System (FMIS). Upon receiving the payroll from the institution Finance Office, FPI Business Office staff shall post it to the journal through the Accounts Payable module of SYMIX no later than Thursday of each pay week. If the actual civilian payroll data is not available, FPI Business Office staff shall post an estimate. When the actual data becomes available, the estimate shall be revised and the actual data posted at that time.

The civilian payroll is not reported on the Statement of Transactions (SF-224). However, the total of the biweekly payrolls received and posted for the month must balance to the monthly National Finance Center (NFC) Payroll Abstract.

104. REPORTING OF CASH TRANSACTIONS TO TREASURY

1. Each accounting officer shall maintain records of accountability (all accomplished disbursing and receipt documents and any pending documents not yet accomplished).

2. The SF-224 is a monthly report of transactions with the Treasury Disbursement Officer that is transmitted through Treasury's GOALS system. If discrepancies are discovered after the monthly submission of the SF-224, the submitting office shall make correcting entries on the following month's report.

Instructions for completing the SF-224 are contained in the Treasury Financial Manual.

105. RECONCILIATION OF THE SF-224 TO THE STATEMENT OF DIFFERENCES (TFS 6652)

The Business Manager shall insure that the Statement of Differences (TFS Form 6652) is reconciled monthly with the SF-224 and appropriate adjustments are made on the general ledger and the SF-224.

106. ACCOUNTING FOR VOUCHERS/DISBURSEMENTS

1. The Business Manager shall insure that all payments are processed through the SYMIX Accounts Payable module including those payments processed through Treasury disbursing centers, through OPAC, and through the Department of Justice (i.e. civilian payroll).

2. The SYMIX Accounts Payable module assigns voucher and schedule numbers when payments are processed. Therefore the Business Office is not required to maintain a manual log of voucher/schedule numbers.

3. At the beginning of each fiscal year, the Business Manager shall insure that the vouchers and schedules are controlled using a new numerical sequence containing the last digit of the new fiscal year.

4. At the end of each month, the Accountant shall insure that the general ledger Voucher Receipts account (21500) is reconciled to the A/P Aging Report and that the Vouchers in Transit account (21000) is reconciled to the In Transit Voucher Report.

5. The Business Manager shall insure that a confirmed schedule listing is extracted from GOALS at the end of the month.

The Accountant or Accounting Technician shall post the appropriate check number to the appropriate voucher in the "In-Transit" screen of the Accounts Payable module.

6. Upon receiving the confirmed schedules report from Treasury, the Accountant shall prepare a journal entry at month end recording payments by the Disbursing Officer for the month.

107. ACCRUED EXPENSES

Accrued expenses are expenses related to services or goods received in one accounting period and payable during a future period. In order to properly match expenses to the period in which the benefit is received, the Business Manager shall insure applicable expenses are accrued as necessary. If the amount is not certain, estimates shall be used.

Common examples of accruals are civilian payroll, inmate wages, or utility costs in which the charge is known with a high degree of certainty but will not be paid until the following period.

The Business Office shall accrue expenses using Journal Entry 10, charging the appropriate expense account and crediting Accrued Expenses Payable (account number 24000).

108. RECONCILIATION OF CASH TRANSACTIONS

The Financial Manager in the Financial Management Branch (FMB) shall insure that the Corporate cash balance is reconciled each month. This shall be accomplished by reconciling the net disbursements and civilian payroll charges as reported by field locations on the SF-224 and the NFC Payroll Abstract to the Treasury Monthly Report 6653 of net disbursements by location.

The Financial Manager shall report differences to field locations, the Department of Justice, or U.S. Treasury as required, for correction or reporting in the next month.

SECTION 8508

FIXED ASSETS

INDEX

<u>SUBJECT</u>	<u>PAGE</u>
PART 1 - INTRODUCTION.....	1-1
PART 2 - MACHINERY AND EQUIPMENT	2-1
200. ACQUISITIONS - GENERAL	2-1
201. ACQUISITIONS - SPECIAL AUTHORIZATIONS	2-1
202. EXCEPTIONS	2-3
203. QUARTERLY REPORT OF MACHINERY AND EQUIPMENT EXPENDITURES	2-4
204. MACHINERY AND EQUIPMENT ACQUIRED WITHOUT EXCHANGE OF FUNDS OR AT A NOMINAL VALUE	2-4
205. APPROVAL OF SURVEY REPORTS FOR DONATED PROPERTY ..	2-5
PART 3 - BUILDINGS AND IMPROVEMENTS (RESCINDED)	3-1
PART 4 - DEPRECIATION (RESCINDED)	4-1
PART 5 - DISPOSALS	5-1
500. GENERAL	5-1
501. BOARD OF SURVEY	5-1
502. PROCEDURE	5-1
503. WRITE-OFF OF FIXED ASSETS	5-2
504. OTHER DISPOSALS	5-2
505. TRANSFERS	5-2
506. DECLARATION OF EXCESS PROPERTY	5-3
507. DONATIONS	5-3

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PART 1

INTRODUCTION

100. INTRODUCTION

Fixed assets are those tangible assets acquired by UNICOR which benefit the Corporation over long periods of time. Fixed assets include such items as buildings, equipment, patterns and dies, tooling and construction. These assets are accounted for in separate general ledger accounts to facilitate accountability, physical control, and reporting, and provide for equitable, systematic allocation of asset costs to production jobs.

- * UNICOR prescribes that items accounted for as fixed assets must have a useful life of five or more years. In addition, machinery and equipment must have a value of \$5,000 or more, and buildings and improvements must have a value of \$4,000 or more. A building improvement must significantly extend the useful life of the building or structure to justify capitalization of such costs.

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PART 2

MACHINERY AND EQUIPMENT

200. ACQUISITIONS - GENERAL

The acquisition of machinery and equipment from any source shall be in accordance with current Federal Procurement Regulations. Those regulations establish a basic policy that property acquisitions be of requisite quality, obtainable within necessary time constraints and at reasonable cost, utilizing competitive procurement methods to the maximum extent practicable. Before taking procurement action, UNICOR activities will comply with applicable laws and regulations relative to obtaining property from government sources and contracts of other government agencies. Government sources include excess and surplus stocks in the hands of any government agency, Federal Supply Schedules, General Services Administration Stores Stock, Federal Supply Service Consolidated Purchase Programs, UNICOR, and National Industries for the Blind.

201. ACQUISITIONS - SPECIAL AUTHORIZATIONS

1. Special Authorizations, FPI Form 27 Request for Special Authorization (RSA), are required for the acquisition of machinery and equipment when the anticipated cost or value of a group, program or equipment project involving similar or like items or an individual item is \$5,000 or more. This includes donable as well as purchased items. FPI Form 27 are required for all acquisitions of computer hardware, bookkeeping machines, and motor vehicles regardless of cost.

ON DONABLE ITEMS, THE ORIGINAL COST IS THE AMOUNT WHICH DETERMINES IF A SPECIAL AUTHORIZATION IS REQUESTED. The special authorization shall show the original cost, however, it shall be submitted for the actual amount to be expended including transportation and installation cost. All special authorizations for donable items of greater than \$5,000 shall be approved by the appropriate Division Manager. (See Section 8540 for FPI Form 27 preparation instructions.)

2. Replacement/Maintenance Machinery and Equipment

a. Machinery and equipment required to replace current equipment, that does not significantly change the productivity or efficiency of an operation, is considered Replacement/Maintenance M & E, (e.g., replacing a worn out metal press).

b. Product Division and staff offices will forecast their anticipated fiscal year requirements for this equipment for the annual Corporate Planning Conference. The forecast shall be based upon the actual known requirements to the extent possible, and be coordinated with each factory in the Product Division.

Corporate Management will review all requests at the conference and approve funding for next year as appropriate. Decisions shall be based upon availability of funds, future planning for activities involved, and other considerations which may effect the benefit of such funding.

c. Product Division and staff offices will then submit an FPI Form 27, RSA, for the approved amount to the Controller, Resources Division, who issue a master special authorization granting them the authority to spend the allotted funds over the designated period of time.

d. When field locations request authority to repair/replace machinery or equipment of a Product Division or staff office, the RSA should include sufficient information on the machines to be replaced to permit proper evaluation. A Request for Special Authorization shall be cross referenced with FPI Form 30, Report of Survey. A Report of Survey (See disposals in this section and Section 8540 for preparation instructions), is required when a disposal of like property is involved. To the extent possible, both the FPI Form 27 and FPI Form 30 shall be submitted together to the Product Division Manager of staff office.

e. Once the master special authorization is received by the Division Managers and the Controller, they may approve the individual special authorizations for the equipment to be procured for their respective activity. Special authorizations approved by the Division Manager and Controller will bear the number designated on the master authorization and in addition, will be individually serialized by sequential numbers. For example, if the master authorization number 1601 and the first individual special authorization is being approved, the Request for Special Authorization form would be numbered 1601.1.

3. Modernization Machinery and Equipment

a. Machinery and equipment required to modernize a current operation or start a new operation is considered Modernization M & E. Equipment in this category should significantly improve the productivity/efficiency of an operation through increased capacity, automation, or quality of a product. Equipment needed to start a new operation

product line or factory is also in this category.

b. Product Divisions and staff offices will forecast their anticipated fiscal year requirements for this equipment for the Corporate Annual Planning Conference. The forecast shall be based upon actual known requirements to the extent possible, and be coordinated with each factory in the division. Corporate Management will review all requests at the conference and approve funding for the next year as appropriate. Decisions shall be based upon availability of funds, future planning for activities involved, and other considerations which may effect the benefit of such funding.

c. Upon Board of Directors approval of a funding level for modernization machinery and equipment, the Controller will assign a master RSA number for the program. The Controller will maintain control of the program and assign all authorization numbers for program expenditures as they are approved by the Deputy Associate Commissioner.

d. Field locations will request formal authority to procure approved items on FPI Form 27 through the affected Product Division or staff office. Upon Division approval, the RSA will be forwarded to a Deputy Associate Commissioner for fiscal approved.

202. EXCEPTIONS

1. Separate RSAs bearing the appropriate master number and sequential number shall be submitted to the appropriate Deputy Associate Commissioner for the following:

a. Vehicles (exclusive of forklift and similar materials handling vehicles and bookkeeping machines).

b. Any single item in excess of \$50,000.

c. Any single item in excess of 20% of the total Division allocation for Replacement/Maintenance Machinery & Equipment.

2. A separate unnumbered RSA for M&E requirements for establishment of new industries or major conversion will be submitted by the Product Division Manager to the Associate Commissioner or Secretary of the Board of Directors for approval. Such requests will contain an itemized listing and sufficient justification to allow appropriate review by corporate management.

203. QUARTERLY REPORT OF MACHINERY AND EQUIPMENT EXPENDITURES

Each location will submit a quarterly report of Machinery and Equipment expenditures summarizing authorized and actual expenditures, donations, and disposals.

204. MACHINERY AND EQUIPMENT ACQUIRED WITHOUT EXCHANGE OF FUNDS OR AT A NOMINAL VALUE.

1. In connection with the acquisition of excess and surplus property, the law permit UNICOR to acquire such property without exchange of funds where the transferring agency does not require reimbursement. The provision reads as follows:

"For its own use in the industrial employment and training of prisoners and not for transfer or disposition, transfers of surplus property under the Surplus Property Act of 1944, may be made to Federal Prison Industries, Incorporated without reimbursement to transfer of funds." (18 U.S.C. 4122)

Purchase orders for such transfers shall bear the following notation: "Transfer to be made without exchange of funds in accordance with 50 U.S.C. 1621a, 18 U.S.C. 4122."

Full advantage of excess property lists should be taken to secure needed machinery and equipment at nominal cost or without exchange of funds.

2. There must be a definite need within a reasonable period before such property is acquired. Upon receipt of such equipment, the warehouse shall prepare a receiving report for the equipment at no value. Machinery and equipment acquired at nominal cost or without exchange of funds, but having an original acquisition cost of \$10,000 or more, shall be appraised on FPI Form 30, Report of Survey, (See Section 8540, Report and Forms), by a Board of Survey appointed by the Superintendent. This Board shall consist of an accountant, a store-keeper, and the foreman of the department, shop, or factory concerned. The appraised value assigned, including restoration, installation and transportation should result in a fair market value for a similar item. Donable values assigned to acquisitions which have extra features or capacities exceeding requirements shall be limited to the fair market value of an item meeting the factory's needs. The Board must meet and determine the value to be assigned within five workdays. All items valued at greater than \$10,000 must be approved by the Controller. To expedite the Controller approval process the initial approval may be attained via the telephone. However, written approval must be attained after the fact. All appraisals should be recorded on FPI Form 30, Report of Survey.

3. When the appraised value of such equipment is less than \$10,000, any related acquisition cost shall be charged to an appropriate expense account. When the appraised value is \$10,000 or more, it shall be capitalized. The related acquisition cost shall be capitalized on a separate equipment card.

4. Upon receipt of approved survey reports having an appraised value of \$10,000 or more, Business Office personnel shall prepare an FPI Form 13, Equipment Card, identifying the appraised value. If the acquired equipment item is less than \$10,000 or classified as sensitive, a "Memo" FPI Form 13, Equipment Card, must be prepared to maintain accountability. Cost data is not required for the memo records. (See Section 8540, Reports, Forms, and Records, for FPI Form 13 preparation instructions.) It will be noted that the item was donated and the assigned value is the result of an appraisal.

205. APPROVAL OF SURVEY REPORTS FOR DONATED PROPERTY

Approval of a Board of Survey Report shall reflect a credit to Account 32010, Donated Property, and a debit to Account 1601X, Machinery and Equipment, via Journal Entry 8b for donated property.

PART 3

BUILDINGS AND IMPROVEMENTS

--RESCINDED--

PART 4

DEPRECIATION

--RESCINDED--

PART 5
DISPOSALS

500. GENERAL

Each UNICOR Field Office shall monitor the property under its control to assure maximum utilization and the prompt disposition of items which become obsolete or excess of needs. Whenever there is sufficient evidence that any Building and Improvement, Machinery and Equipment, Materials and Supplies, Work in Process, or Finished Goods should no longer be retained, the AW I&E/Superintendent of Industries shall appoint a Board of Survey to physically inspect such property and recommend whatever action is considered to be in the best interest of the Government.

501. BOARD OF SURVEY

A Board of Survey shall be appointed by the AW I&E/Superintendent of Industries. The purpose of the Board shall be defined prior to the appointment. The members of the Board shall review all pertinent facts concerning the item(s) to be surveyed, including, the value recorded in the General Ledger. The Board shall use FPI Form 30, Report of Survey, to record the results of their activity and also to submit their recommendations.

502. PROCEDURE

1. The Report of Survey, FPI Form 30 shall contain:
 - a. Complete property description.
 - b. Brief comments supporting recommended action.
 - c. Journal entries proposed in connection with the transaction. THESE ENTRIES MUST NOT BE POSTED TO THE ACCOUNTS UNTIL DISPOSAL OF THE PROPERTY ON THE REPORT OF SURVEY IS ACTUALLY MADE. (See Section 8540, Reports, Forms, and Records for detailed instructions.)
 - d. The trade-in value.
 - e. Efforts to locate missing property, the date first missing, and action taken to prevent future losses (if applicable).

2. Field Approval. Survey reports on property which has initial cost, including any donable value, of \$5,000 per line item or less may be approved by the AW I&E/Superintendent of Industries or a designee. The blue and yellow copies of the FPI Form 30 shall be forwarded to the Division Office if the cost, including donable value, is \$300 or more.

3. Higher Office Approval. When the cost, including donable value, is between \$5,000 and \$10,000 per line item, the original and copies of the survey report shall be submitted to the Division Office for approval prior to taking disposal action. If the value is greater than \$10,000, the Division Office will submit the survey report to the Deputy Associate Commissioner for approval, if the Division concurs with the recommendation.

503. WRITE-OFF OF FIXED ASSETS

Fixed assets shall be written off based on survey reports at the time of disposition. Items which are continued in service, such as trade-ins or future abandonments, which shall be written off when the replacement is received or the item is no longer in service. Account 1601- or 16030 should be credited for the acquisition value of production equipment or industrial buildings and Accounts 16020 and 16040 shall be debited for the amount of related accumulated depreciation. The differences between the debits and credits will be charged to the applicable expense account, sub-account 325, Damaged/Obsolete Property - Fixed Assets.

Book values and the depreciation reserve on surveyed items to be written-off should be determined as of the end of the month in which disposal takes place.

504. OTHER DISPOSALS

Other assets (Raw Materials and Supplies, Work In Process, and Finished Goods) shall be written off based upon a Board of Survey Report, FPI Form 30. Damaged and obsolete inventory shall be charged to the sub-account 32-, Damaged and Obsolete Property. Missing inventory shall be traced to applicable jobs if possible. If it cannot be identified to a job, it shall be written off to Cost of Sales Control, Account 53020. All inventory found missing during an official physical inventory shall be reported on the FPI Form 63A whether traced to a job or not.

505. TRANSFERS

1. Raw materials and supplies shall be transferred within FPI at book value. If according to the Receiver Report the actual value of such raw materials and supplies is less than book value, they must contact the transferor to negotiate an acceptable valuation. The original FPI Form 5 transferring the property shall be processed as billed. If an adjustment is necessary, it shall be made on the books of both industries through a newly initiated FPI Form 5 charge back. See Invoicing, Section 8504.

2. Shipping charges incurred by transfer of raw materials and supplies shall be borne by the benefiting industry. If the transfer is made to relieve the sending institution of inventory items for which it has no foreseeable need, shipping charges incurred shall be borne by the sending institution.

506. DECLARATION OF EXCESS PROPERTY

Property which has been properly surveyed and determined to be excess of local needs will be listed, with one copy of such list sent to each UNICOR Field Office and five copies to the Controller, Resources Division. If, within two weeks, there is no response from any UNICOR business office expressing an interest in these items, a copy of the listing shall be sent to each institution and to the Procurement Section of the Bureau of Prisons. Items remaining on the original listing after 90 days should be reported to the General Services Administration on SF-120, in accordance with FMPR 101-43.315. These reports will be forwarded to the Washington Office for transmittal to the Department of Justice.

507. DONATIONS

Donations of property that was originally purchased by UNICOR shall be charged to Account 65325, Other Expense, Damaged/Obsolete Fixed Assets. Donations of property that was originally donated to UNICOR shall be charged to Donated Property, Account 3200-- through Journal Entry 27.

SECTION 8509
INVENTORY CONTROL AND MANAGEMENT
INDEX

<u>SUBJECT</u>	<u>PAGE</u>
PART 1 - INTRODUCTION	1-1
100. INTRODUCTION	1-1
101. OBJECTIVES	1-1
102. STAFF RESPONSIBILITIES	1-1
103. UNICOR'S INVENTORY MANAGEMENT SYSTEM	1-4
104. DEFINITION OF TERMS	1-5
PART 2 - INVENTORY REAL ACCOUNTS	2-1
200. INVENTORY REAL ACCOUNTS	2-1
201. RAW MATERIALS AND SUPPLIES	2-1
202. PURCHASE ORDER	2-1
203. SURPLUS PROPERTY	2-2
204. DEFECTIVE MATERIAL/SCRAP/OVERAGES.	2-3
205. SHOP STOCK	2-6
206. WORK-IN-PROCESS.	2-6
207. FINISHED GOODS	2-8
PART 3 - WAREHOUSING FUNCTIONS.	3-1
300. WAREHOUSING FUNCTIONS.	3-1
301. RECEIVING.	3-1

<u>SUBJECT</u>	<u>PAGE</u>
302. STORAGE	3-4
1. Physical Areas	3-5
2. General Principles for Store Room Layout . .	3-6
3. Access to Stores	3-7
4. Safety Considerations.	3-8
303. ISSUES.	3-8
304. BAILMENT PROCEDURES	3-10

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<u>ILLUSTRATION</u>	<u>TITLE</u>	<u>PAGE</u>
1	RECEIPT OF MATERIAL FLOW CHART.	3-1A

PART 1

INTRODUCTION

100. INTRODUCTION

Control of inventories is an essential element of the UNICOR management system. Approximately forty percent of UNICOR's assets is comprised of three classes of UNICOR inventory, (raw materials and supplies, work-in-process and finished goods). Approximately sixty-five percent of the corporation's cost of goods sold is made up of raw material and supplies inventory items. UNICOR's investment in inventories is significant, and the adequacy of inventory stock levels for each inventory item is essential to an effective production program. The right materials in the right quantities must be on hand when needed to avoid production line shut-downs. Over-supply of inventory items leads to unnecessary tie-up of cash, enhances the possibility of raw material obsolescence before it can be used, and exposes UNICOR to possible losses if excess inventory requires disposal. The UNICOR system "APECS" (Automated Production, Evaluation and Control System) has been designed to optimize stock levels, provide meaningful inventory valuations, provide effective control over storage and accurate charges to production job orders.

101. OBJECTIVES

The objectives of UNICOR's Inventory Management System include:

- Minimization of unit costs as well as level of corporate investment in inventory items.
- Assurance of ongoing physical control of stock on hand.
- Minimized delays in production caused by stock outages.
- Minimized losses as the result of raw material obsolescence or discontinued inventory items.
- Controlled warehouse expenses in handling and space utilization.

102. STAFF RESPONSIBILITIES

1. Effective and efficient management of UNICOR inventories at each field location is dependent upon division and field location staff carrying out their assigned duties and responsibilities.

2. Division responsibilities include:

- a. Assuring that location personnel accomplish their inventory management duties and responsibilities.
- b. Providing guidance in identifying supply sources, notification of product additions, and notifications of changes and deletions to existing Bills of Materials.
- c. Assignment of mnemonic classification codes for raw material and finished goods and stock items used by their factories.

3. The AW(I&E)/Superintendent of Industries has overall responsibility for effective implementation of production and inventory management at their field location. Specific responsibility for requesting raw material and supply needs is delegated to the factory managers. Warehouse, inventory accounting, and procurement action is delegated to the location's Business Manager. The inventory management duties of the AW(I&E)/ Superintendent and Factory Managers include:

- a. Manually preparing production schedules based upon work orders received from the division.
- b. Entering and updating the production schedule into the APECS system as orders are received, cancelled, changed or rescheduled. (Transaction T026 and T027).*
- c. Entering job orders into APECS when they are placed in production (Transaction T473*) and assuring that the Business Office maintains Production Order and Cost Sheets (FPI Form 9) to account for the production costs related to each job.
- d. Obtaining a "pick list" through APECS (Transactions T098*) and assuring that Stores Requisition and Transfer forms (FPI Form 49) are timely and correctly submitted to the warehouse.
- e. Continual review of the status of raw material and factory supply stock reports to assure that the material is ordered as needed

4. Business Manager Responsibilities. The location Business Manager delegates his responsibilities to factory accountants, the warehouse manager and the procurement officer. In addition to assuring that these delegated responsibilities are carried out the Business Manager assures that on-going and periodic physical inventories are taken and processed as prescribed in this manual.

5. The Procurement Officer's assigned duties and responsibilities include:

- a. Taking action as directed by a Factory Manager's Request for Purchase (FPI Form 89), notifying factory and warehouse personnel as to the results of such action and entering purchase orders for raw materials into the APECS system. (Transaction T008*).
- b. Assuring that data in the APECS system accurately reflects procurement lead time and current cost of material and supply items to be used in meeting production planning schedules.
- c. Obtaining raw materials and supplies that meet factory management specifications at the most effective (quality versus cost) prices available.

6. Warehouse Responsibilities. Overall supervision, paperwork flow and APECS data entry* (office type functions) are the responsibility of a Warehouse Manager. Day-to-day receiving, storage, and issue (floor walking type functions) are the responsibility of a warehouse foreman. Specific duties and responsibilities of warehousemen include:

- a. Accurate documentation of receipts and issues of raw material and supply items.
- b. Accurate input of receipts, issues and inventory adjustments to the APECS system by the close of business of the day the event occurs.*
- c. Maintenance of effective storage layout, an effective stock locator system, stock-pulling procedures that result in ready access to stock items for issues and physical inventory, avoidance of stock obsolescence (use old items before new), and safe working conditions for warehouse civilian and inmate personnel.
- d. Prevention of access to the warehouse facility by other than warehouse personnel.
- e. Close liaison with Business Office and Quality Assurance personnel on documentation, quality of receipts and reconciliation of APECS quantity data* with accounting stock record cards.
- f. Effective supervision and training of inmate personnel assigned to the warehouse activity.

7. Factory Accountant Responsibilities. Factory accountants are responsible for timely and accurate recordkeeping of receipt and issue data including Stock Record Cards (FPI Form 47M) or the APECS system*, and Production Order and Cost Sheets (FPI Form 9) documentation.

8. Quality Assurance Responsibilities. Quality Assurance personnel are responsible for prompt inspection of incoming materials and supplies identifying defective material and submitting Receiving Rejection Reports FPI FORM 122 as required. This function is carried out as an added responsibility to identifying and promptly reporting defective factory work. Defective work is reported through Defective Work/Scrap Reports FPI Form 31 which identify the accounting treatment that may relate to inventory items.

103. UNICOR's INVENTORY MANAGEMENT SYSTEM

UNICOR's inventory management system is a combination of manual and computerized procedures.

1. A computerized Materials Requirements Planning (MRP) technique is used for control of UNICOR inventory items. In general MRP is a technique that controls and schedules the replenishment of inventory items based on the requirements for raw materials and supplies at specific times in the future. The computerized system consists of three major elements:

- a. Inventory Control: Keeps track of inventory; maintains records to reflect current amounts on hand whenever there is an issuance or receipt; also keeps track of amounts allocated to jobs in the future, and of quantities on order and due in.
- b. Planning: Helps management plan what, when, and how much inventory to acquire to meet the needs of the production schedule.
- c. Documentation: In order for the above two functions to work, there must be a data base--a collection of information describing the end items UNICOR manufactures and the component parts of each item. Management can change the data base whenever there is an additional product or change to an existing product.

2. The manual control system for inventory items includes processing receiving reports, stores requisitions and adjustment journal entries in addition to maintaining subsidiary and General Ledger control records. A manual stock and control system, processed through National Cash Register posting machines or location micro computers are used for financial control of inventory items pending further development of the APEC system.

104. DEFINITION OF TERMS

1. Inventory - the term used to designate the aggregate of those items of tangible personal property which (1) are held for sale in the

ordinary course of business, (2) are in process of production for future sale, or (3) are basic materials stored for future use in the production of customer orders.

2. Inventory system - involves the controls over movement of materials from supplier to ultimate disposition to customers; including: purchasing, receiving, materials storage and handling, production and production control, and distribution.

3. Inventory stock level - a function that establishes the desired quantity of each inventory item that is needed for production requirements for identified time periods.

4. Inventory costs - generally includes purchase prices, transportation, physical loss of materials, interest on investment and cost of operating the control system. Also included are opportunity costs associated with lost revenues due to outages or non stocked items at the time of need.

5. Inventory values - the values assigned to each item of UNICOR inventory. Common methods of assigning inventory values are cost, market, last-in first out (lifo), and first in first out (fifo). UNICOR uses an average cost method (value of stock on hand with latest acquisition value added; this total divided by the units on hand after latest receipt provides a revised average unit cost).

6. Inventory management - the board area of planning and controlling and the devices used to implement those plans and controls.

*Disregard if not yet on APECS.

PART 2

INVENTORY REAL ACCOUNTS

200. INVENTORY REAL ACCOUNTS

There are three series of real accounts for inventory: Raw Materials and Supplies, Account 130--; Work-in-Process, Account 140--; and Finished Goods, Account 150--; that are used by UNICOR to classify inventory. Raw materials are bought into the system from a variety of sources and are then converted to work-in-process inventory upon request of factory personnel. Direct labor and overhead costs are added to the material valuation in changing the form of raw material items to a UNICOR product. When materials, direct labor and overhead cost have been converted into a UNICOR product, it becomes a finished goods item for inventory purposes.

201. RAW MATERIALS AND SUPPLIES

The acquisition or procurement of raw materials and supplies for any use and from any source shall be in accordance with Federal Property Management Regulations and UNICOR's Procurement Procedures Section 8530 of this account manual. As a general rule, purchased or manufactured component parts, used directly or indirectly in the production process, will not be stocked in excess of quantities required to fulfill firm customer orders for end items. Raw materials stocking programs may be authorized on an exception basis by the Secretary/Deputy Associate Commissioner, upon receipt of a Request for Special Authorization (RSA) from the appropriate Product Division Manager. The RSA will provide a complete economic justification and, if approved, will be in effect through the end of the fiscal year in which issued. Acquisition of factory supplies cannot be effectively based on customer orders, and each factory location must develop some other feasible method to control stock levels for factory supply items. Exception to stock level rules are instances in which quarterly and/or lot size restrictions imposed by vendors force acquisition of materials in excess of current job order needs.

202. PURCHASE ORDER

Acquisition of raw materials and supplies is predicated upon a factory manager's submission of a Request for Purchase, FPI Form 89. Those requests are based upon "Order Signals" from the APECS system* or a requester's override of that system. The location's procurement officer takes procurement action in the form of a Contract Order for Supplies or Services, Standard Form 147 (purchase order).

Each active purchase order has a unique identification number incorporating the location code into a five digit serial number. Each location's Business Office is responsible for ensuring that individual purchase orders are assigned a control number. A copy of each purchase order involving receipt of inventory items or other tangible property that will process through the location's receiving unit is forwarded to the receiving unit to advise of pending receipts. It is entered into APECS through transaction T008.*

203. SURPLUS PROPERTY

Full advantage will be taken of excess and surplus property lists to secure needed materials and supplies at nominal or no cost, so long as a bona fide need exists within a reasonable time period. Purchase orders for the transfer of excess property with no exchange of funds will bear the following notation:

"Transfer to be made without exchange of funds in accordance with 50 U.S.C. 1621a, 18 U.S.C. 4122."

1. Upon receipt of surplus property items with an original value of less than \$10,000.00, a "memo" receiving report shall be prepared that will be entered into the APECS system* and entered into the receiving report register without dollar valuation. These items shall be added to current stock levels at no cost and no accounting is required.

2. Upon receipt of surplus property items with original values of \$10,000 or more a "memo" receiving report shall be prepared that will not be entered into the APECS system* but will be entered in the Receiving Report Register without dollar valuation. "Memo" stock cards FPI Form 47 will be prepared to establish quantity control. These items are subject to valuation by a Board of Survey.

a. A Board of Survey will be appointed by the AW I&E/Superintendent of Industries with specific instructions to appraise (maximum elapsed time of five days from date of receipt) the surplus property received at fair market value. Boards of Survey must recognize the following general guidelines:

1) Three member Boards of Survey will be appointed by the AW I&E/Superintendent of Industries consisting of one member from each of the following areas: Business Office, Warehouse or Quality Assurance and the foreman of the department, shop or factory requesting or required to use the surplus property received.

2) Line item appraisals will be based upon original acquisition values as noted on the surplus property listing, GSA condition codes and the extent of modification required to adapt the items to UNICOR needs. Considering all these factors, the property shall be appraised at fair market value. The primary purpose is to provide a realistic appraisal so that production costs are not distorted by an under or over valuation of raw material costs.

3) The results of the Board of Survey action shall be reported on a Report of Survey, FPI Form 30 and approved by the AW I&E/Superintendent of Industries.

b. Upon approval of a survey action by the AW I&E/Superintendent of Industries, approved valuations shall be debited to Raw Materials and Supplies, Account 13010 and credited to Donated Property, Account 32010. The Receiving Report Register shall be annotated on the "memo" Receiving Report line referencing the Board of Survey report. A copy shall be transmitted to:

1) The Stock Record card clerk for recording on stock cards and removal of applicable "memo" stock cards.
NOTE: separate stock cards are required for donated property. These property accountability records shall not be co-mingled with purchased property.

2) To the warehouse for notation in the Receiving Report Log referencing the Board of Survey report and entry of the stock items available into the APECS* System

3) The factory foreman requesting the surplus items to advise of their availability.

3. In those instances where property received by donation is later donated to a non-UNICOR activity based on Board of Survey recommendation, the field location will debit Account 32010 or 32020, Donated Property and credit Account 13010, Raw Materials and Supplies. A requisition and shipping order will be prepared and forwarded to the warehouse for action and recording into the APECS* System.

4. Freight costs of obtaining donated property shall be expensed as incurred and not added to the appraised value.

204. DEFECTIVE MATERIAL/SCRAP/OVERAGES/REWORK

In every UNICOR warehousing operation a separate area shall be used to store bailment material, defective material, and scrap. Within this area items shall be segregated by the control document involved (receiving or defective work/scrap report). The source of these raw material items as specific control procedures are as follows:

1. Quality assurance personnel reject raw material received from a supplier due to the suppliers failure to meet purchase order specification. If the entire shipment fails to meet specifications, the Receiving Report, FPI Form 11, shall be reclassified from 13010, Raw Material to 13030, Defective Material, and the Receiving Report Log notated as to the receipt of defective material. If only part of the shipment is rejected, the initial Receiving Report shall be adjusted to acceptable units and an additional receiving report prepared for the defective material. The Receiving Report Log must be updated with the revised data concerning the corrected receiver and record the additional Receiving Report for the defective material.

a. After classification, and dollar value adjustment, the Receiving Reports will follow regular Receiving Report distribution procedures.

b. The defective material Receiving Reports must be transmitted into the APECS system to establish stock control and to up-date the status of planned receipts. The defective material received, if of significant quantity may require alternation of the procurement cycle. The rejected materials will be stored in the area provided for such items. Copies of defective material Receiving Reports will be forwarded to the Business Office and the requester of the materials as for regular receivers. The factory accountant will record the defective material receivers to stock cards pending disposal action.

c. Upon decision to return the rejected material the Business Office will prepare a shipping order direction warehouse personnel to return the rejected items to the supplier. The data will be entered into the APECS system via transaction T019 and the factory accountant will record the return to his stock cards thereby eliminating the defective material from the accounting records.

d. Should a decision be made to use the defective material the business office should advise the warehouse foreman to prepare a requisition to remove those items from 13030, Defective Material, to 13010, Raw Material, via journal entry 12 and to enter the transaction into APECS.

2. Overshipment of materials that are not immediately cleared for acceptance or rejection by the requisitioning officer shall be brought into the warehouse on a regular receiving report that is recorded in the Receiving Report Log and transmitted into the APECS system.* The location Business Manager must assure that a decision is promptly made concerning retention or return of raw material overshipments. The return of excess material to the supplier is processed in the same manner as the return of defective material to the supplier.

3. Quality assurance rejection of materials in process or completed production items that are not immediately reworked pending a decision to rework or scrap shall be transferred to the warehouse by requisition and a Defective Work/Scrap Report (FPI Form 31). If it is determined immediately that the items should be scrapped, a requisition should be drawn by the Factory Manager transferring the items from materials in process, account 14010, charging Abnormal Costs, Account 54000, for the difference between the rejected materials scrap value and materials in process inventory value. Account 13040, Scrap, shall be charged with the estimated (net of disposal costs) scrap value as established by Quality Assurance personnel on the FPI Form 31. For those items held pending a decision to scrap or rework, a requisition should be prepared by the Factory Manager transferring the items from material in process inventory to raw materials and supplies - Defective Material, Account 13030. The transfer to account 13030 should be recorded at its realistic current value as established by Quality Assurance personnel on their "Defective Work/Scrap Report". The difference between the value removed from material in process inventory Account 14010 and the charge to Account 13030 is a known loss and is charged to "Abnormal Costs", Account 54000, (See Journal Entry 12). In either event, transaction T005 is used to record this activity in APECS. If the item is later reworked, transaction T011 is used to release the rework job.*

A requisition is used to transfer defective material from account 13030 to work in process inventory upon decision to rework. A requisition is drawn to transfer the material from Account 13030 to Account 13040, Scrap, if it is decided not to rework the rejected items (See Journal Entry 12). There may be an additional amount to be charged to "Abnormal Costs", Account 54000, upon transfer of defective material to scrap, dependent upon the defective material's value as scrap. A UNICOR invoice is used for the sale of all items classified as scrap.

4. Customer return of UNICOR products for not meeting specifications are brought into the institution via a Receiving Report without a dollar valuation pending quality assurance inspection. If substantial rework is required, quality assurance personnel will prepare a Defective Work/Scrap Report, FPI Form 31, noting the estimated cost to rework of the rejected products. The unvalued Receiving Report and the FPI Form 31 are turned over to the factory accountant who obtains original cost values from the Shipping Order and Cost of Sales Register. This information is provided to the Warehouse Manager who reports the dollar values on the Receiving Report. Copies of the Receiving Report and FPI Form 31 are forwarded to the Business Office for entry into the stock record cards or into APECS through transaction T018.*; and posting of Journal Entry 8a debiting Account 13030 and crediting Account 51000 Cost of Sales. (See UNICOR Cost Accounting Manual Paragraph 406.5).

5. In those instances where quality assurance personnel determine that the cost of rework is not significant a Defective Work/Scrap Report report will not be prepared. (See UNICOR Cost Accounting Manual, paragraph 406.4). The Warehouse Manager will use original cost values in completing the Receiving Report and record the returned goods as Finished Goods Account #15 via journal entry 8. Entry into the APECS system* and financial records follows routine Receiving Report procedures. Since this activity merely sets the stage for rework activity, a notification to the Factory Managers is required to assure that the rework is promptly placed into production planning schedules.

205. SHOP STOCK

Raw Materials and Supplies Account 13020, Shop Stock, arises from the simple process of transferring bulk material such as rolls of steel, drums of paint, and rolls of screening from sub-account 13010, Materials and Supplies, via journal entry 12. The shop stock account is used when amounts requisitioned are substantially greater than the need for a production job and the type of material involved cannot be readily supplied in the quantity needed for the job. As a result, requisition quantities are restricted to issuable units such as a roll, drum, etc. The issuable unit is transferred to the factory floor where physical inventory control of usage becomes the responsibility of factory personnel. This transfer is recorded in APECS by using transaction T014 to move material to a location which is identified with shop stock.* Withdrawals for production jobs are documented by requisition with the furnished column completed by the factory manager. Filled requisitions are then forwarded to the Warehouse Manager for assignment of a warehouse control number and processing into the APECS system (Transaction T023 and T022*) and the accounting records (see paragraph 303 - Issues). Due to the loss of inventory control inherent in this procedure, periodic physical inventories of shop stock are essential and must be accomplished at each month end to assure proper charges to production jobs and month-end inventory valuations.

206. WORK-IN-PROCESS

Work-in-process inventory items are the result of the production process. Responsibility for physical control and valuation lies with factory personnel and the accounting function maintained by Business Office personnel, respectively.

1. The three elements (material, labor and overhead) of product costs are used in the valuation of work-in-process items. Direct material costs are obtained through the requisition process and direct labor costs through time and rate charges as documented by factory personnel. (See Payroll, Section 8511, of this manual.) Overhead costs are obtained by applying a predetermined rate to each dollar of direct labor cost (see UNICOR Cost Manual, Part

2. These three elements of costs are accumulated by production job on FPI Form 9, Production Order and Cost Sheets. The FPI Form 9 serves as a subsidiary record for work-in-process inventory control. The process of accumulating work-in-process inventory costs is complex and frequent checks on work-in-process inventory balances is warranted through the physical inventory process.

3. Factory personnel are responsible to identify their raw material needs based on the "pick list" generated by the APECS system* or override of that system as necessary. A Stores Requisition and Transfer, FPI Form 49 is prepared by the Factory Manager. A factory control number is assigned and one copy of FPI Form 49 (see UNICOR Cost Accounting Manual, paragraph 307) is retained by the Factory Manager for a memo file. The original and remaining copies are forwarded to the Warehouse Manager for processing along with the "pick list".*

4. The Warehouse Manager reviews the requisition for accuracy, validity, and completeness. The warehouseman returns the document for corrections if the identity of the material does not conform with UNICOR Standard identification numbers, nomenclature, or quantity needs of the production department. Valid requisitions are turned over to the warehouse foreman who assigns a requisition number, pulls the stock items requested, fills-in the quantity furnished column, dates, and signs the requisition. He then advises the requesting factory foreman that the material requested is available for pick-up.

5. Upon receipt the factory foreman signs the FPI Form 49 and pulls one copy for his files. Four copies are retained by the Warehouse Manager who enters the FPI Form 49 information into the APECS System (Transaction 022 or 023*) to update the raw materials and supplies inventory. Three copies of the FPI Form 49 are forward to the Business Office for recording in the Requisition Register, posting to the applicable Material Stock Control Card, FPI Form 47, and the Production Order and Cost Sheet, FPI Form 9. The Business Office forwards one copy of the recorded FPI Form 49 to the Factory Manager as an advisory that the stock has been withdrawn, transferred to work in process, and recorded. The Requisition Register is closed each month and summarized for Journal Entry 12.

6. Direct labor cost is accumulated by factory foreman (see Payroll Section 8511 of this Manual) and forwarded to the Business Office for calculation of the inmate payroll and posting to the FPI Form 19. At month end or close of a job, the FPI Form 19 data is posted to the FPI Form 9. The direct labor charges per job are summarized at the end of the month on the FPI Form 9 and compared to the total direct labor on the payroll voucher for verification of accuracy. The payroll may then be posted to Account 14020 via Journal Entry 9. (See Chapter 8506, paragraph 308).

7. Factory overhead expense is added at month-end by applying predetermined overhead rates (See Chapter 8506, paragraph 606) to the recorded direct labor cost for each job. These overhead costs are recorded on the FPI Form 9 and are summarized on FPI Form 51. The total shall be verified by comparison with the applied overhead determined by applying the predetermined overhead rate to the monthly total labor charged to Account 14020. Any differences not resulting from rounding shall be isolated corrected. Overhead is then posted to the General Ledger via JE 17.

207. FINISHED GOODS

1. As a general rule, finished goods will not be produced for stock but, rather, produced in quantities to fulfill requirements created by firm customer orders. Product Divisions will authorize production by assigning a production order number for each customer's purchase order.

2. Finished goods stocking programs may be authorized on an exception basis by the Deputy Associate Commissioner, upon receipt from the appropriate Product Division Manager of a Request for Special Authorization. The RSA will provide a complete economic justification and, if approved, will be in effect through the end of the fiscal year in which issued.

3. All standard products will carry a National Stock Number (NSN) to facilitate finished product control and identification. Product Division Managers will determine which new products are to be designated "standard". During the interim, while awaiting NSN assignment, new standard products may be assigned a temporary UNICOR part number, in the format "TPN-0000", by Centralized Number Assignment, Corporate ADP.

4. End products are removed from Work In Process and reported to the Warehouse Supervisor through use of the FPI Form 49, Storeroom Requisition. This form shall be prepared by the Factory Manager, daily if practicable, and numbered sequentially using the prefix "FG" (Finished Goods), a document number; e.g. 0001-83 to show the fiscal year also and a factory identifier if appropriate. After the form has been signed by the Warehouse Supervisor, the Factory Manager will:

- a. Give one copy to the Warehouse Supervisor.
- b. Give the original and first copy to the factory accountant.
- c. Retain one copy for the factory job folder file.

The original FPI Form 49 shall be priced as soon as practicable from the cost data on the FPI Form 9 for the job to which it applies. After pricing, the FPI Form 49 shall then be posted to a Finished Goods Register, in it's proper sequence and to Finished Goods stock records cards. The original of the FPI Form 49 shall be retained in a file to support the Finished Goods Register while the second copy shall be placed in the business office job folder to support the delivery to finished goods.

5. Finished Goods valuations should be reviewed by the location accountant for unrealistic unit values. While the UNICOR Cost Accounting Manual requires a factory management review and analysis of each completed job, with explanations provided on the FPI Form 9 for major variances from estimated costs, the accountant's check assures that recorded finished goods values are reasonable. In those instances where the values assigned to finished goods on the FPI Form 49 exceed 95% of selling price (see UNICOR Cost Accounting Manual paragraph 612), an adjustment of cost should be made to 95% of selling price through Journal Entry 21C.

In many factories completed products are immediately shipped to customers and are not reflected as finished goods on periodic financial statements. In those instances, adjustment to 95% of selling price is not necessary for inventory valuation purposes. Production Order and Cost Sheets, FPI Form 9, data advise management of the lack of profitability on production jobs and Account 53010, Inventory Valuation Write-off, merely serves as an offset for inventory valuation purposes. (Journal Entry 21d serves as the media for finished goods valuation adjustments.)

6. Transfers to finished goods for the month per the Finished Goods Register shall be made via Journal Entry 18 and 18a.

7. Finished goods stock cards must be maintained or entry made to APECS for Finished Goods* even though finished goods are promptly invoiced to customers. These records (stock cards/APECS) provide essential historical information on product activity that is needed for production and sales planning. The total amount of finished goods as reflected on these stock cards shall be reconciled each month to the finished Goods account balance(s).

*Disregard if not yet on APECS

PART 3

WAREHOUSE FUNCTIONS

300. WAREHOUSE FUNCTIONS

The primary functions of the warehousing operations are receiving, storage, and issue of inventories. Accurate organized documentation is required in all three of these areas. All incoming items to a UNICOR location must pass through the warehouse receiving unit where they are identified, inspected, counted, and documented. Stored items must be informatively and clearly labeled, stored for ready access to warehouse personnel, and protected from access by other than warehouse personnel. Warehouse issues must be effectively documented and be in the quantity and by type of item requested by factory personnel.

301. RECEIVING

Receiving is the responsibility of the warehouse foreman and is a critical time from the standpoint of inventory security and material control. Receiving personnel must assure that incoming items warrant acceptance by their institution, that they are devoid of illegal contraband, and that they are consistent with order quantities and specifications. A warehousing facility is one of the most vulnerable areas for introducing contraband into an institution. Precautions must be taken on each receipt to assure that contraband items have not been included.

1. Initial review of the material received and the packing slip should assure that the items received belong to the location. Physical count of units received must be accomplished without reference to support documents to avoid prejudicial counts due to knowledge of what should be there. Therefore, a warehouse worker other than those with access to the packing slip or purchase order should make the count or do the weighing. The data on the packing slip should then be compared with the count or weight of material received. Any discrepancies must be noted on the packing slip and carried forward when preparing the Receiving Report.
2. Maintaining any form of effective material control starts with correct input into the system. After verification of the packing slip, a Receiving Report, FPI Form 11, is prepared that serves as the principle document for data input into APECS* and the accounting records.

ILLUSTRATION 1
RECEIPT OF MATERIAL FLOW CHART

3. The control number for a Receiving Report is obtained by selecting the next sequential number from the Receiving Report Log maintained by the warehouse foreman. Each Receiving Report number is prefixed with an applicable factory code i.e. EC, Electronic Cable factory. Minimal descriptive information to assist in recall regarding the receipt should be noted in the Receiving Report Log on the line for the newly assigned receiving report number. See paragraph 301.12.

4. Warehouse foremen assure that a Receiving Report is prepared for each receipt regardless of the type of item or problem with the shipment, such as damages, valuation, or availability of support documentation. Each item received shall be identified on the FPI Form 11 by part number as provided by UNICOR's Material Requirements Planning system. Part numbers will be in the format "XXX-00000." The prefix "XXX" represents a mnemonic (memory-aiding) classification code, such as "SCR" for screw. These codes are predefined; a list is contained in the APECS Operating Manual Inventory Management. If the system does not have a part number available for the item received, the Product Division shall be contacted for an assignment of a standard identification number.

5. The warehouse foreman is also responsible for noting accounting classification codes on each Receiving Report. Generally the warehouse copy of the purchase order will provide the appropriate accounting classification code that should be used. If not, Business Office personnel should be contacted for that information.

6. Upon completion of the FPI Form 11, the receipt is entered into APECS (Transaction T019*) after the material and Receiving Report is made available to quality assurance personnel for their inspection as to quality, condition and propriety of the items received. The warehouse foreman must assure that a quality assurance inspection is made or document the reason for no inspection. (See Reports and Forms Section of this manual for FPI Form 11 preparation guidelines.)

7. Items received without an advance copy of a purchase order should be routinely received and inspected with the Receiving Report annotated as to the fact that there was no purchase order available. For example, samples received from a supplier or material arriving from another UNICOR operation without advance notice may not be supported by a purchase order. Receiving Reports should clearly disclose the extent of overshipped items. Overshipped items will not be given any special accounting classification code, however, Business Managers are responsible for obtaining a prompt decision whether to return the overshipped items to the supplier or retain them as a stock item. The phrase "receipt overage" should be a

to the Receiving Report. Factory Managers or the location AW I&E/Superintendent is responsible for any action to be taken on overshipments. No action results in the acceptance of the overage. If a decision is made to return the overage, responsible officials should notify the Business Manager of the appropriate action to be taken.

8. Whenever tools or other dangerous materials are received, a Controllable Item Report must be prepared for the items received. The Controllable Item Report, prepared in addition to the FPI Form 11, is sent from the Warehouse Manager to the institution Control Officer. It shall disclose the date received, a sequential control number, applicable purchase order and receiving report numbers, item, quality, and description. It should include a signature line for the Warehouse Manager and an acknowledgment area that includes space for the Control Officer's signature. A copy of the Controllable Item Report should be sent to the AW I&E/Superintendent of Industries for his permanent files and a suspense file copy retained by the Warehouse Manager. The original and one copy should be forwarded to the Institution Control Officer. One copy to be returned to the Warehouse Manager acknowledging receipt of the tools. Upon receipt of the acknowledged copy the Warehouse Manager destroys his suspense file copy and permanently files the acknowledged copy.

9. Incoming material inspection by Quality Assurance personnel must comply with the requirements specified in UNICOR's Quality Assurance Manual. These requirements include instruction for quality assurance certification on the FPI Form 11 or reasons for non-inspection. Material may be rejected, retained for rework, or accepted. When material is rejected, Quality Assurance personnel must prepare a Receiving Report, EDQ 122 (See Reports and Forms Section of this manual). The Receiving Report shall be revised and adequately annotated as to the extent of defective material, referencing the EDQ 122 report. Upon completion of their inspection and certification, quality assurance personnel will forward the FPI Forms 11 and 122 to the Warehouse Manager.

10. In the case of rejection material, the Warehouse Manager will change the accounting class code from Account 13010, Raw Materials and Supplies, to Account 13030, Defective Material. In those instances of partial acceptance and partial rejection, separate Receiving Reports should be prepared to facilitate control over the defective merchandise. Upon assurance that the Receiving Reports are proper, the Warehouse Manager will have the data entered into APECS.* Rejected material Receiving Reports are entered to provide support for Account 13030 inventory items and to update the APECS data so that corrective action can be taken to offset the loss of planned material acquisitions and avoid an inventory outage.

11. After entering Receiving Report data into APECS* the Warehouse Manager forwards the original and one copy of the FPI Form 11 to the Business Office. The accountant files the original in the open voucher bin with the applicable procurement documentation to provide support for the subsequent payment. The extra copy shall be used by accountants to enter Receiving Report data on to the Receiving Report Register and on UNICOR Stock Cards, FPI Form 47M. The extra copy is then filed numerically. A Receiving Report Register is maintained for each factory and contains columns for date, Receiving Report number, Account 22000, Unvouchered Receipts, and other recurring accounts (i.e, 13010), and a miscellaneous column for infrequently used accounts. At the close of each month the register(s) is totaled, footed and verified. These figures shall then be posted to the General Ledger via Journal Entry 8, 8a as appropriate.

12. Posting clerks recalculate stock card unit prices for each posted receipt. That calculation establishes a new unit price for the combined total of old and new items. The total units after recording quantity received is divided into the total dollar value of all items on the stock card. The result of this calculation provides the average unit price to be used in charging subsequent issues into production.

13. The Business Manager is responsible for periodic review and follow-up on items recorded in Account 13030, Defective Material. When a decision has been made to return rejected material a GBL will be prepared. The Business Office personnel will direct the Warehouse Manager to accomplish such return. The warehouse foreman prepares a Stores Requisition and Transfer, FPI Form 49, following regular requisition procedures. The FPI Form 49, should be annotated with an explanatory note as to the reason for the return of the material, identification of the management official directing the return, and the GBL number that applies to release of the defective material. In entering the transaction in the Requisition Register, Unvouchered Receipt Account 22000, will be debited and Defective Material, Account 13030, will be credited via Journal Entry 12. These same procedures will be used for return of overshipments, except the credit side of the entry in the requisition register will be to Raw Materials and Supplies Account 13010 following regular procedure. The FPI Form 49 should be annotated with the GBL number and an explanatory note as to the reason for the return of the item. The information is entered into APECS via Transaction T019.

302. STORAGE

Storeroom layout and procedural plan for the flow of raw materials and supplies into and out of the storeroom are the responsibility of the Warehouse Manager and Business Manager. The actual physical storage of inventory items is the responsibility of the warehouse foreman.

1. Physical Areas. Distinct physical areas shall be maintained to the extent possible to facilitate the traffic patterns in a warehouse operation. The traffic patterns include material flow from receipt to storage to issue. The paperwork flow is from purchase order advice of stock due in, to receiving reports, stock rejection reports, stock issue requisitions and physical inventory data. The people pattern includes receiving stock items, Quality Assurance inspectors, storing personnel, stockpullers, and personnel who deliver or pick-up the stock issues. Generally, six areas should be designated to facilitate these traffic patterns and should include a receiving dock, inspection area, main warehouse, issue room, a caged area for "hot" items, and a warehouse office. This is not meant to prescribe UNICOR requirements as the availability of space and warehouse requirements varies significantly at factory locations.

a. Receiving dock area - where trucks, etc. are loaded and unloaded. It should be large enough to adequately unloaded, count and initially inspect and properly examine all incoming material. All material must be retained in this area until a Receiving Report is prepared. After the Receiving Report is prepared the material is given over to Quality Assurance personnel for their inspection and certification.

b. Quality assurance inspection area - an area will all material is certified or inspected prior to storage or transfer to production duction. A separate storage area must be maintained for material that does not pass inspection or must be held pending further tests. A separate room with locking door or a steel mesh cage should be used. Access must be limited to warehouse supervisory personnel or Quality Assurance personnel.

c. Main warehouse area - where all items that have been inspected and certified as acceptable are stored. An exception to this procedure occurs when specialized or immediate use items are transferred immediately to the production floor. This area must be large enough to segregate material by type, provide for employee safety and provide adequate aisle space for easy accessibility in filling factory requisitions. There should be adequate bins, shelves and pallets for effective storage. Lighting must be adequate to identify numbers and facilitate location of stored items. Adequate heat for winter and cross-ventilation for summer activity must be provided. Similar material should be stored together and flammable materials must be placed in a separate storage area readily accessible to fire prevention/fighting equipment.

Grouping by type in addition to bailment, defective material and flammable materials includes such items as hardware, lumber, packaging, leather and cable. For a variety of items bins provide the best method of storage. Self-adherence tape or some similar device should be used to adequately identify the items in the bin. Bagging of bin stock can facilitate stock control. Content labels displaying quantity and unit identification facilitates stock pulling and the inventory process. New tags must be used to replace labels when less than a bag quantity is pulled. The benefit of adequate control more than offsets the added work of replacing labels

Shelving also facilitates the grouping of stored material. Shelving must be sturdy enough to handle the type of items stored and be subject to change when product lines change. Shelving provides for off-floor storage and easy access for pulling stock. Bulky items should be palletized as another form of shelving.

d. Issue area - located in close proximity to the warehouse office area. As stock items are pulled, orders are assembled in this issue area. Rechecks can be readily made to assure that orders are accurately filled.

e. Caged "Hot" item area - located near the receiving dock to permit "hot" items and items that cannot be immediately counted to be stored until they can be appropriately handled.

f. Warehouse office area - location must provide sufficient visibility of the whole warehouse area to prevent unauthorized access to stored materials and supplies. The facility should provide sufficient desk space and office equipment to handle the paperwork flow required of the warehousing function. In addition to the actual working area, there must be a "break area" and adequate restroom and sanitary facilities for warehouse personnel.

2. General Principles for Storeroom Layout. Layout of a stores area in a UNICOR field location cannot be prescribed exactly due to the wide variation in needs at individual locations. However several universal principles related to layout of storage areas should be applied:

a. Stockrooms should be laid out so that materials flow from receiving at one end to the distributing point at the other end.

b. The stockroom should be provided with a main center aisle to control internal flow, and sufficient cross aisles to provide ready access to all bins and shelves. The main aisle should be wide enough to provide for two-way traffic; aisles between shelves and bins should be limited to one-way traffic.

- c. A separate packing and unpacking area should be provided to prevent cluttering aisles with packing materials.
- d. Slower moving items should be located away from the main aisles to facilitate materials handling.
- e. A system should be provided to ensure that old stocks are used first to lessen the risk of deterioration and damage due to excess handling. Since lots lose their identity when placed in bins, a plain ID tag should be attached to each container in a shipment that indicates the date of receipt, or the containers themselves can be stenciled as to receiving date.
- f. Storage areas should be segregated by type, e.g., all bins and shelves should be together, there should be a separate area for all pallet racks, etc.
- g. Each storeroom shall have an effective locator system. It should be logical and simple to follow in the event a temporary warehouseman has to be assigned in the absence of the warehouseman. It should be documented with a narrative description of the system as well as illustrations of the primary locator codes. The presence of an effective and easily understood locator system is essential to an efficient storage operation.

3. Access to Stores. At each location, the warehouse foreman will be held responsible and accountable for effective storage of the stock. He will ensure that a throughgoing system of stockroom control is established and followed which prevents unauthorized withdrawals and withdrawals without proper documentation and recording of issuance.

- a. Most violations of this principle are made by well-intentioned production personnel whose only concern is to get needed materials to keep production going. If stores are open, unauthorized withdrawals with little likelihood of proper recording will be made. Other problems created by this practice include, the higher probability of withdrawing the wrong materials/parts and the possibility that a higher priority need for the stock will be circumvented; e.g. planned jobs.
- b. All stockrooms will be constructed so that entry and exit can be controlled. No one will be permitted inside the stockroom unless under the personal supervision of a warehouse foreman. In situations where the warehouse foreman has additional duties, the storeroom will be locked in his absence. Procedures shall be devised whereby routine issues are restricted to periods of time when the warehouse foreman can be on

hand. Those procedures should

provide for emergency issues under the auspices of the Business Manager or the AW I&E/Superintendent of Industries, with adequate documentation required for any withdrawals made or items received during the absence of the warehouse foreman. (Log Book noting date of action, materials involved, and the reason for use of the emergency process.) Upon return, the warehouse foreman shall complete the necessary paperwork such as assigning document control numbers, preparation of Receiving Reports and/or requisition documents and proper distribution of transaction copies.

c. Exceptions to these rules will be supported by written authorizations from the appropriate product Division Manager, such as, economic justification for maintaining some inexpensive common use items on the factory floor as "Shop-Stock".

4. Safety Considerations. It is the responsibility of every staff member working within the UNICOR Warehouse to insure that proper Safety and Sanitation procedures are constantly observed. Precautions should be taken in advance to insure that lost time due to injuries or accidents are avoided. Periodic safety lectures should be provided inmate warehouse crews. When held these meetings should be documented as to the time held, personnel in attendance by name, subjects discussed and the name of the civilian who held the meeting. The original document should be forwarded to the Institutions Safety Manager and a copy retained in the warehouse files. Accidents can be avoided. By instructing each member of the Warehouse crew in proper safety and sanitation techniques, accidents and hazards can be eliminated. By instilling a sense of pride and responsibility in each individual, the warehouse can be a safe and efficient operation within UNICOR.

303. ISSUES

Issues from the warehouse are generally based upon requests from factory managers for production needs. Those requests are in the form of six part Stores Requisition and Transfer, FPI Form 49, attached to an APECS "pick list"*.

1. The Factory Manager assigns a factory control number to the FPI Form 49 and specifies the production order to be charged for the material. The requisition details the items and quantity required identified by UNICOR part number and article description. APECS also supplies a hard copy "pick list" in bin sequence to facilitate filling the requisition. The Factory Manager retains one copy as a suspense file and forwards the original and 4 copies to the Warehouse Manager.

2. The Warehouse Manager reviews the requisition for propriety and assigns sequential accounting control numbers. The numerical control is maintained in a requisition log which adequately identifies the requisitions for reference purpose. The warehouse crew pulls the items requested noting quantities supplied in the "Furnished" column of the requisition. The warehouse foreman signs the requisition upon determination that it has been filled as requested. Should the material requested not be available, the requisition will be so notated and reasons will be provided to the extent possible for failures to fill the requisition as drawn. Failure to supply factory requests is an indicator of breakdowns in the material control system. A report must be submitted to the Business Manager advising of the inventory problem so that an investigation can be initiated to advise of the corrective action that needs to be taken to meet supply requirements and to avoid such problems in the future.

3. When a requisition has been filled the warehouse foreman advises the Factory Manager as to the availability of the materials requested. The Factory Manager or his delegate picks-up the material and signs the requisition noting that all items charged were received. The receiver is provided with one copy of the requisition. The Warehouse Manager transmits the material supplied data into APECS*, files one copy in his completed requisition file, and forwards the original and two copies to the Business Office.

4. Upon receipt for the FPI Form 49, the designated employee enters the dollar values for the requisitioned items and the accountant records the withdrawal on the Requisition Register. The original FPI Form 49 is filed numerically, a copy is placed in the applicable job file, and a copy is furnished to the requisitioning office. The Requisition Register shall be maintained for each factory and shall have columns for the date, requisition number, Account 13010, Raw Materials and Supplies, major or most recurring accounts (i.e., 14010 and/or 1605-), and a column for miscellaneous or infrequently used accounts. At the close of each month the register(s) shall be totaled, footed and verified. These figures shall be used to post Journal Entry 12 to the General Ledger.

5. Incidental materials and materials furnished to other locations are frequently requested in a format other than a FPI Form 49. In such instances, the Warehouse Manager will draw-up the requisition after consulting APECS* to assure that necessary stock levels are not jeopardized. The requested items are pulled and delivered. The Warehouse Manager will transmit the withdrawal information into APECS* and forward the original and two copies of the requisition to the Business Office. The Business Office can destroy two copies as the withdrawal does not relate to a production job and the Factory Manager advisory is not applicable unless it materially effects production stock levels.

6. Withdrawal of rolls of steel, drums of paint, rolls of screening for signs etc. frequently provide sufficient material for many production jobs. In most instances it is not practical for warehouse personnel to issue these material items in the quantities required for a single job. In order to properly allocate costs to specific jobs the initial withdrawal is charged to Raw Materials and Supplies, Account 13020, Shop Stock, via journal entry 12. It is entered into APECS as a transfer of material from Raw Materials and Supplies, Account 13010, to Shop Stock using transaction T014.* Control of shop stock issues to production jobs becomes the responsibility of factory personnel. As materials in shop stock are needed, the factory foreman initiates a requisition, has it approved, and a factory control number is assigned by the Factory Manager. The Factory Manager retains one copy for his control file. The factory foreman then removes the needed stock noting quantity taken in the furnished column. The original and three copies are forwarded to the Warehouse Manager for assignment of a requisition number and transmission of data into APECS with transaction T023 or T022.* The Warehouse Manager retains one copy for his files and forwards the original and two copies to the Business Office where the standard recording process is accomplished.

7. Transfer of excess material from a completed job to a job-in-process on the production floor follows the same procedure as that for shop stock except for that the job is credited for the excess material than shop stock.

304. BAILMENT PROCEDURES

1. In the manufacture of certain UNICOR products some of the raw material may be furnished by the customers (bailment). When the bailment system is to be used, procedures for acquiring the bailment material will be spelled out in the purchase order and/or contract. Payment of freight for the material, either outgoing or incoming should be part of contact negotiations with the customer agency. If UNICOR is to be liable for freight, the estimated cost should be included in the unit cost statement and all pricing determinations. Even if the item to be produced is a standard UNICOR product, the use of bailment material requires that a revised unit cost statement be prepared recognizing the use of bailment material and the revised sales price.

2. Department of Defense Form 250 (DD250) will accompany any Government furnished material. This form should be carefully examined along with the material received. Preferably UNICOR's quality assurance inspection will be accomplished in the presence of a Quality Assurance Representative from DCAS. The basic format used for material received is the FPI Form 11 "Receiving Report" without unit price or total amount column showing values. The FPI Form 11 should be boldly stamped Government Furnished Material (GFM). The DD250 control number and the contract number should be recorded on the face of the FPI Form 11. Upon completion of the receiving and inspection process the material must be placed in a separate storage area restricted to bailment material.

3. All control of bailment material will be by units only. However the value of a unit, as established by contract, will be noted on UNICOR stock cards. (This value will be used to establish potential liabilities for excess use, loss, or diversion for other purposes).

4. When bailment material is used in manufacturing, it is charged to work in process by use of a FPI Form 49, Storeroom Requisition showing units only (No dollar values). Unit accountability will be maintained in work-in-process. Separate "MEMO" UNICOR stock cards must be maintained for each bailment item, or if using APECS,* unique part numbers will be established for the items by the Product Division prior to initiating jobs. Bills of Material including the bailment items will also be prepared when applicable.

5. When shipment of products containing bailment material is made, billing should be at the contract unit price, which should not include the value of bailment material. Account 12010, Accounts Receivable-Government, should be debited and Account 41010, Sales to Other Government Agencies, credited for the amount of the invoice via Journal Entry 22.

6. Since there will be a specific materials allowance per unit, accurate accountability must be maintained. When a known loss occurs, the cost, using the unit prices shown in the contract, should be immediately charged to an appropriate expense and credited to Account 27000, Accounts Payable Deferred. Upon completion of each contract, a physical inventory should be made and adjustments to Material Stock Control cards and Account 27000 made. If the job extends over a long term, interim physical inventories should be taken to verify current book balances. Any materials used in excess of the contract shall be charged to Account 27000..

7. The final settlement with the customer should reflect all credits due to him. At this time the total in Account 27000 for this contract should offset Account 12010, Accounts Receivable-Government via Journal Entry 22.

8. New stock record cards should be created for each contract order or work order to be produced. When materials remain after completion of a contract they must be removed from accountability of the original contract. If the customer has agreed that they should be used on subsequent orders, they should be transferred to a new stock card, appropriately referencing how they were obtained. The material transferred to the new stock card will be shown (memo only) at the new contract bailment material value, not the value it was on the previous contract. Transportation expenses applicable to any unused material returned to the customer should be charged to the party designated in the original contract. With APECS, the same function is performed using unique part records and numbers.*

* Disregard if not yet on APECS

